



# Submission to the Productivity Commission

*Collection Models for GST on Low Value Imported Goods*

4 September 2017

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## Abbreviations and Acronyms

ATO	Australian Taxation Office
BAS	Business Activity Statement
CAPEC	Conference of Asia Pacific Express Carriers
Cargo	LVIGs transported into Australia by an express carrier
DIBP	Department of Immigration and Border Protection
Discussion Paper	Productivity Commission Discussion Paper on Collection Models for GST on Low Value Imported Goods
EAD	Electronic Advance Data
EMS	Express Mail Service
GST	Goods and Services Tax
GST Act	<i>A New Tax System (Goods and Services Tax) Act 1999 (Cth)</i>
GST Regulations	<i>A New Tax System (Goods and Services Tax) Regulations 1999 (Cth)</i>
ICS	Integrated Cargo System
IPC	International Post Corporation
IPP	Integrated Product Plan
Legislated Model	GST collection model as established in the <i>Treasury Laws Amendment (GST Low Value Goods) Act 2017 (Cth)</i>
Low Value Goods	Goods with a customs value equal to or less than the prescribed amount of \$1,000
LVIG	Low Value Imported Goods
Non-letter mail	Non-mail goods that are transported into Australia by Australia Post
OECD	Organization for Economic Cooperation and Development
PC	Productivity Commission
Senate Committee Inquiry	Senate Committee Inquiry on the <i>Treasury Laws Amendment (GST Low Value Goods) Bill 2017</i>
SME	Small and Medium-sized Enterprises
UPU	Universal Postal Union
USPS	United States Postal Service
SAC	Self Assessed Clearance

Supplier <sup>1</sup>	Under the modernised transporter model, this is the entity that contracts for the transportation of goods to Australia which will be the vendor / marketplace / supplier / redeliverer
Taskforce	Low Value Parcel Processing Taskforce
Transporters <sup>2</sup>	The entities that are responsible for importing the goods into Australia (i.e. domestic express carriers and Australia Post)
VAT	Value Added Tax

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<sup>1</sup> In the context of the modernised transporter model.

<sup>2</sup> In the context of the modernised transporter model.

## The Modernised Transporter Model

### Overview

Amazon appreciates the opportunity to provide input to the Productivity Commission ('PC') on whether there are more effective, lower-cost, less burdensome, and more equitable means for collecting Goods and Services Tax ('GST') on low value goods imported into Australia ('LVIG')<sup>3</sup> than the model included in the *Treasury Laws Amendment (GST Low Value Goods) Act 2017* ('legislated model'). Amazon believes strongly that the answer to the PC's Inquiry is yes. The following document offers a much more efficient collection model and demonstrates how all parties – vendors, online marketplaces, express carriers, postal operators, and the Australian government – working together can implement it.

Amazon is proposing a GST collection model that builds on the transporter model developed by the Australian government-appointed *Low Value Parcel Processing Taskforce* ('The Taskforce') in 2012. **A modernised transporter model** takes into account technological developments in logistics and clearance processes over the past five years; offers an improved experience for customers; and reduces the costs to and burden on Australia's border protection and transporters, in comparison to the Taskforce's original transporter model.

The modernised transporter model is also a significant improvement over the legislated model because:

- (i) The modernised transporter model ensures a level playing field for Australian retailers. The Australian government estimates that five years after implementing the legislated model, it will still only be able to collect GST on just over half LVIGs entering Australia.<sup>4</sup> In comparison, under the modernised transporter model, the Australian government could collect GST on 95 per cent of LVIGs.<sup>5</sup>
- (ii) The modernised transporter model can be implemented beginning 1 July 2018 with higher rates of compliance and GST collections. In Year 1 of implementation, Australia will collect more than **twice** the amount of GST under the modernised transporter model versus the legislated model, and up to **\$1.5 billion or 125 per cent more** in GST over a five-year period.<sup>6</sup>
- (iii) The modernised transporter model will generate greater State and Territory revenue<sup>7</sup> at minimal cost to the government, Australia Post and other transporters. New South Wales, Victoria, and Queensland would each forgo more than \$340 million in GST revenues over a five-year period under the legislated model.<sup>8</sup>

The legislated model does not achieve Parliament's stated policy objectives of levelling the playing field for Australian retailers and maximising GST revenue. The model is fundamentally flawed because it depends on voluntary compliance from many thousands of offshore vendors (including small businesses) and marketplaces that have no presence in Australia. The legislated model also requires offshore enforcement of Australian laws against each of these businesses in every country in which they operate. As a result, many businesses will not comply with the legislated model, without consequences. Adding to these challenges, as technology advances, new marketplaces will

<sup>3</sup> Goods valued below \$1,000.

<sup>4</sup> See Treasury testimony before the Senate Economics Legislation Committee hearings, 21 April 2017.

<sup>5</sup> See Annexure 2 for detailed KPMG modelling.

<sup>6</sup> *Ibid.*

<sup>7</sup> *Ibid.*

<sup>8</sup> *Ibid.*

proliferate, as the cost of establishing a marketplace continues to plummet.<sup>9</sup> Vendors looking to circumvent the law will easily be able to migrate their goods to non-compliant marketplaces or new marketplaces that operate below the \$75,000 threshold. Consumers will also adapt their buying behaviours to seek out the marketplaces and vendors who do not charge the GST.<sup>10</sup> This will further reduce GST collection under the legislated model.

The modernised transporter model, on the other hand, better achieves these objectives by placing enforceable liabilities on a limited number of domestic express carriers and Australia Post (collectively ‘transporters’) who each have a physical presence in Australia, and in respect of whom the Australian Tax Office (‘ATO’) has jurisdiction. For these reasons, and because the model will over time drive consistent treatment of goods entering Australia irrespective of who sold them, this model will ensure substantially greater GST collection rates than the legislated model and will truly level the playing field for Australian retailers. The modernised transporter model is an alternative, not a complement, to the legislated model, and the former cannot be layered on top of the latter. A single point of tax assessment with a single party (the transporter) accountable for the GST is the only model that will drive consistency and compliance. Layered models will lead to duplicate or no GST being collected and asking multiple parties to incur compliance costs will further drive up costs for consumers.

Whether under the legislated model or the modernised transporter model, the event triggering the GST liability on goods sold overseas to Australians is not the sale of the goods alone (a transaction which occurs outside of Australia and which should not be subject to Australian taxes) but rather the importation of those goods into Australia. The actual importer of the goods is generally the consumer, and the vendor of the LVIGs typically engages the transporter to handle importation of the goods into Australia and delivery to the consumer. As the transporter is the party facilitating the importation of the LVIGs, the transporter is the most appropriate party to charge and remit the GST payable on those goods.

### Feasibility for LVIG Cargo

Express carriers already possess the capability to effect the modernised transporter model through existing reporting of arrival information for all cargo via Self Assessed Clearance (‘SAC’) to the Department of Immigration and Border Protection (‘DIBP’). In fact, for taxable goods valued over \$1,000, this information is used to facilitate the calculation and payment of duties and GST. With regard to compliance rates, in Europe and the United States, cargo shipments subject to GST (collected as a customs clearance fee at the time of importation) achieved a 98 per cent collection rate<sup>11</sup> through the use of pre-arrival customs data exchange<sup>12</sup>. Similar levels of compliance should be achievable in Australia under the modernised transporter model.

### Feasibility for LVIG Non-Letter Mail

Australia Post can also achieve a collection rate of approximately 60 per cent by the end of the first year of launching of the modernised transporter model, and more than 93 per cent within four years.<sup>13</sup> Australia Post can achieve these high collection rates because: (i) the Universal Postal Union

<sup>9</sup> See, for example, Payoneer, Skrill, Paysafe, etc. that enable supplier-buyer marketplaces through payment solutions technologies.

<sup>10</sup> Productivity Commission 2016, *Digital Disruption: What do governments need to do?*, Commission Research Paper, Canberra.

<sup>11</sup> Copenhagen Economics, September 2015, *Private Express Carriers’ vs Posts’ Treatment of Packages Inbound to the US: Security Risks and Customs Concerns*.

<sup>12</sup> Copenhagen Economics, 4 May 2016, *E-commerce imports into Europe: VAT and customs treatment*, p.1.

<sup>13</sup> Note: The approximate 60 per cent collection rate is based on 98 per cent collection rate for compliant overseas postal operators and 0 per cent collection rate on all other non-letter mail shipments by the end of

(‘UPU’) will soon require its 192 global postal authority members to share certain electronic advance data (‘EAD’) on non-letter mail entries; (ii) UPU agreements allow postal operators to charge and reimburse each other certain costs for clearing entries, including amounts to cover GST, via bilateral or multilateral agreements; and (iii) Australia already has agreements in place, with the United States and the other members of the Kahala Posts Group<sup>14</sup> (who comprise approximately 80 per cent of parcel and express mail service (‘EMS’) traffic globally<sup>15</sup>) that can be immediately leveraged to charge and obtain reimbursement of GST.

A. Australia Post Has or Will Soon Have the Data Necessary to Charge, Receive and Remit GST

Australia Post either has now, or in the near future will, have the necessary data available to it to enable it to charge, receive and remit GST on LVIGs from all 192 members of the UPU.

Australia Post is a Group 1 member of the UPU, which categorises countries into Groups 1-5.<sup>16</sup> Under the UPU’s Integrated Product Plan (‘IPP’), Group 1 countries are required to place a barcode on non-letter mail items. The barcode is used to transmit the same data that is declared on the customs declaration attached to the non-letter mail item, which includes the description of the goods, the price, and the destination. Australia Post is currently receiving pre-arrival electronic notification information contained in the barcode through the EAD interchange for some Group 1 countries as well as major trading partners (including the United States, United Kingdom, and China), and can already use this information to implement the modernised transporter model.<sup>17</sup>

Over the next 1-3 years, the IPP/UPU requirements will be phased in for the remainder of the Group 1 countries and the Group 2-4 countries. The 2016 UPU Congress requires all 192 global postal authorities under the IPP to:

- Have the UPU standard barcode system<sup>18</sup> in place by 1 January 2018; and
- Provide EAD to other postal operators by 2020.

Australia Post can use this barcode information to facilitate receipt of GST on LVIG non-letter mail, starting with Group 1 countries (as well as China, Taiwan, Hong Kong and other major trading partners already in compliance with IPP/UPU requirements)<sup>19</sup> and adopting a transitional phased approach as more originating countries comply with the IPP/UPU requirements. Although some of Australia’s trading partners are not already in compliance with these requirements, many are working to do so, as it is in their national security and commercial interests. Notably, China Post already uses E-Packet labels to send pre-arrival data on non-letter mail items being sent to Australia

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the first year; It is conservatively estimated that Kahala countries comprise approximately 61 per cent of non-letters by value; therefore, 98 per cent x 61 per cent ≈ 60 per cent.

<sup>14</sup> The Kahala Posts Group was created in 1995 to improve data and e-commerce capabilities, and now consists of eleven leading postal authorities (Australia, China, United Kingdom, United States, Canada, Hong Kong, Japan, France, South Korea, Spain, and Thailand).

<sup>15</sup> Refer to pg114 of the Low Value Parcel Processing Taskforce – Final Report July 2012.

<sup>16</sup> In general, Group 1 countries are developed countries, Group 2-4 countries are developing countries and Group 5 consists of the least developed countries.

<sup>17</sup> Testimony of Robert Cintron, Network Ops VP of USPS, before Senate Committee on Homeland Security and Government Affairs: <http://www.hsgac.senate.gov/download/robert-cintron-testimony-2017-05-25>.

<sup>18</sup> [http://www.upu.int/uploads/tx\\_sbdownloader/S10TechnicalStandard.pdf](http://www.upu.int/uploads/tx_sbdownloader/S10TechnicalStandard.pdf)

<sup>19</sup> Refer to Mr Timothy Dyce’s testimony to the Senate Economics Legislation Committee, which provides that larger organisations and electronic distribution platforms supplying LVIGs into Australia are primarily located in the UK (38 per cent), North America (27 per cent), China (8 per cent) and Hong Kong (8 per cent). Transcript available at: [http://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/cb02292c-5a71-41f4-8eb9-4dbe95f72163/toc\\_pdf/Economics%20Legislation%20Committee\\_2017\\_04\\_21\\_4992\\_Official.pdf;fileType=application%2Fpdf#search=%22committees/commsen/cb02292c-5a71-41f4-8eb9-4dbe95f72163/0000%22](http://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/cb02292c-5a71-41f4-8eb9-4dbe95f72163/toc_pdf/Economics%20Legislation%20Committee_2017_04_21_4992_Official.pdf;fileType=application%2Fpdf#search=%22committees/commsen/cb02292c-5a71-41f4-8eb9-4dbe95f72163/0000%22)



Post (refer detailed comments at 2.1.3 of this submission), which contain sufficient information to allow the GST liability on LVIGs to be calculated.

#### B. Australia Post Has the Ability to Receive GST on Importations

The UPU convention permits Australia Post to charge and receive an amount equal to the costs incurred in clearing the goods through customs, including any customs duties, taxes or fees related to importation of those goods. These permissions are contained in Article 20 (items 3 and 4, respectively) of the UPU convention (as detailed in the *Letter Post Manual* and *Parcel Post Manual*).

The commentary in relation to Article 20 (item 4) states that:

*'[t]he expression "customs duty" is to be interpreted in a wide sense so as to cover all import duties and charges that customs adms [sic] are responsible for collecting in application of the national legislations of each country. In all cases, the internal legislation is applicable.'*

Article 20 of the UPU convention provides the framework upon which Australia Post can implement a process with originating postal operators to charge and receive payment of an amount of import GST due as an actual cost of clearing the goods through customs.

Under the modernised transporter model, Australia Post will not be the importer of goods, however will be required to charge GST for the importation of goods it brings into Australia and remit that GST to the ATO.

In the context of the modernised transporter model, Australia Post can charge originating postal operators the GST payable, as part of its transport charges, and those postal operators would collect the transport charges from senders (e.g., supplier / vendor / marketplaces).

#### C. Australia Post's Existing Bilateral and Multilateral Postal Agreements can facilitate GST Collection

In the context of the modernised transporter model, Australia Post can use binding and enforceable bilateral and multilateral agreements to charge originating postal operators an amount of GST payable on LVIGs.

Article 20 (items 3 and 4) allows Australia Post to charge to originating postal operators tax charges (such as GST) via such bilateral or multilateral agreements. For example, in the existing bilateral agreement between Australia Post and the United States Postal Service ('USPS'),<sup>20</sup> each party has responsibility for their own taxes and duties in their country (Article 6.2), and a party can require the originating postal operator to collect the GST (as an additional tax charge) via simple amendment.

In addition to the UPU-based structures, postal operators have other ways to exchange data and manage cross border taxes and duties. A leading example of this is the Kahala Posts Group, created in 1995. The agreements between the Kahala Posts countries cover approximately 80 per cent of the parcel and EMS traffic globally.<sup>21</sup>

GST collection from originating postal operators can be effectively implemented by leveraging the existing commercial arrangements of Kahala Posts countries, and for other countries not party to Kahala Post arrangements, via other bilateral or International Post Corporation (IPC) Agreements.

<sup>20</sup> <https://www.prc.gov/docs/98/98365/R2017-2%20Australia%20Signed%20Agmt%20Notice.pdf>

<sup>21</sup> Refer to pg114 of the Low Value Parcel Processing Taskforce – Final Report July 2012.

Where those agreements require amendment to enable GST collection, the amendment could be made by a simple 1 page rate card amendment (there are existing practices for amending rate cards by short annexures), and the competitive tension between the postal operators and the express carriers should create a commercial incentive to complete any required amendments or renegotiations in a timely manner, especially if the modernised transporter model applies to express carriers from 1 July 2018. For the purposes of modelling, Amazon has developed a base case and two sensitivities to demonstrate the impact of phased collection arising from phased completion of negotiation of the required agreements (A: base case: 25 per cent of Kahala volume in 2018-19 + 100 per cent of Kahala volume from 2019-20 thereafter; Scenario A: 50 per cent of Kahala volume in 2019-20 + 100 per cent of Kahala volume from 2020-21 thereafter; Scenario B: 100 per cent of Kahala volume starting 1 July 2018.<sup>22</sup>).

Amazon acknowledges that it may be challenging for Australia Post to charge and receive GST on non-letter mail received from non-compliant IPP/UPU countries and that Australia Post may need to put in place changes to agreements with postal operators in other countries to support payment flows. However, even after allowing time for negotiation of these and phased on-boarding of each country, the overall compliance rate (inclusive of express carriers and overseas postal operators compliant with IPP/UPU requirements) will be greater for the modernised transporter model than the legislated model, both at launch and over five years through 2022, yielding both a more level playing field for Australian retailers and greater GST revenue for the States and Territories.

### National Security Considerations

Australia Post is required, under its UPU obligations, to undertake necessary upgrades to its systems and processes to address supply chain requirements relating to customs, security and aviation;<sup>23</sup> these global UPU requirements are a response, in part, to the increased threat of dangerous goods being transmitted via the postal system.<sup>24</sup> Many countries, such as the United States, United Kingdom, and China, have already upgraded their systems to provide Australia Post with pre-arrival EAD on imported non-letter mail, for use by border protection authorities in identifying higher-risk non-letter mail. By 1 January 2020, all 192 overseas postal operators are required to provide Australia Post with pre-arrival EAD on imported non-letter mail. These same systems upgrades, process improvements and the data they make available, can be utilised by Australia Post to implement the modernised transporter model, as the EAD transmission includes all the information relevant for GST calculation, including the declared price and description of goods.

### Compliance Costs

In its submission to the Senate Committee Inquiry on the *Treasury Laws Amendment (GST Low Value Goods) Bill 2017* ('Senate Committee Inquiry'), Australia Post raised concerns that its costs to comply with the 2012 Taskforce model would be \$900 million annually. By comparison, Amazon's proposed modernised transporter model would result in lower costs to Australia Post than the 2012 Taskforce model, by (i) taking advantage of new capabilities in place, or forthcoming, per Australia Post's Kahala relationships and UPU obligations, and (ii) shifting to a one-payment system that eliminates the need for a second payment on account of GST and therefore the need for warehousing of goods (reducing the cost of storage, customer contact and returns for non-acceptance) and enabling the free flow of goods at the border. As a result, the modernised transporter model is estimated to only increase shipping costs by \$3.00 per shipment (which is approximately 7 per cent of the average

<sup>22</sup> See Annexure 2 for detailed KPMG modelling, Tables 13 and 14.

<sup>23</sup> Requirement of IPP for parcel post and Express Mail Service, per Operations Council of the UPU, 26<sup>th</sup> Congress (8 November 2016).

<sup>24</sup> *Australian Financial Review*, August 4 2017, 'Near miss: terror suspects built bomb using parts sent through the post by ISIS'; *The Australian*, 6 February 2017, 'Border Force crackdown on illegal firearms arriving as parts'.

value of shipments under \$100, and 3 per cent or less for shipments over \$100), excluding the GST payable on the LVIGs (*refer to detailed comments at 2.3.2*). For example, if it costs \$10.00 to send a package today, the modernized transporter model would cause the cost of shipping to be increased to \$13.00 excluding the GST payable on the LVIGs.

Similarly, in its testimony during the PC hearings in August 2017, CAPEC (representing express carriers) also raised concerns with the costs its members would incur to comply with the 2012 Taskforce model, citing 2011 cost estimates of \$2 billion annually which were in fact calculated based on a border collection model. The Taskforce model and the proposed modernised transporter model are different from a border collection model. The modernised transporter model would result in substantially lower costs than estimated by CAPEC in 2011, as the model takes advantage of the improved capabilities and existing processes and systems of express carriers and offers a one-payment system. Shipping cost increases for express shipments are also estimated to be \$3.00 per shipment, excluding the GST payable on the LVIGs (*refer to detailed comments at 2.3.2*).

### Modernised Transporter Model - Transaction Process

A detailed explanation of each of the process steps in the modernised transporter is summarised below, and a flowchart is provided on page 14.

#### Step No. ("C" denotes Cargo, "M" denotes Mail)

- 1 **Purchase:** A customer purchases a LVIG for importation into Australia.
- 2 **Price:** The supplier / vendor / marketplace (hereafter 'supplier')<sup>25</sup> collects payment for the delivered good sold (being both the price of the good, and the freight/delivery charge which includes an estimate of the transporter's GST charge) from the customer.

Under a simplified GST calculation, the GST payable on the importation of non-exempt LVIGs into Australia would be 10 per cent of the price of the good. This would allow for an estimation of the GST payable by the transporter at the point of checkout. The estimation of the transporter's GST would be included in the freight/delivery charge, and communicated to the customer at the point of checkout.

LVIGs brought to Australia may be subject to exemptions such that GST should not be payable on those goods.<sup>26</sup> These exemptions should be consistent with the exemptions that apply domestically and would cover a variety of scenarios, such as course materials for an education course. However where misclassifications arises (for example because an overseas vendor may not be familiar with Australia's GST exemptions), it is proposed that a GST refund mechanism would operate (*refer to detailed comments at 2.4.2*).

- 3 **Transporter selection:** The supplier has contracted or contracts an express carrier (e.g., DHL, FedEx) (for 'cargo') or a postal operator (e.g., USPS) (for 'non-letter mail') to transport the LVIG to Australia. The express carrier or postal operator obtains the information needed to enable importation of the good from the supplier, including the description of the good, the price paid for the good (which should allow the transporter to determine the GST liability), the indicative weight of the package and the destination.

**Transporter charges:** The overseas express carriers and postal operators charge the suppliers the freight/delivery charges (including an amount to cover the GST payable by the domestic transporter on the LVIG when it is imported into Australia). These transporter charges will

<sup>25</sup> For the purposes of discussion, the supplier / vendor / marketplace ('supplier') is considered to be the entity that contracts for the transportation of goods to Australia. Where a redeliverer is utilized, then the redeliverer would be treated as the supplier and would recover an estimation of GST payable on importation from the customer as part of the service charges for acting as redeliverer.

<sup>26</sup> Subsection 13-10(b) of the GST Act.

typically be pre-agreed, or can be estimated using carrier or postal estimating tools, and included in the amount paid at step 2.

- 4C **Cargo electronic data:** The overseas express carrier transmits to the domestic express carrier the information obtained from the supplier, including the description of the good, the price paid for the goods, the indicative weight of the package, and the transporter charges paid.

This information is the basis for lodging a SAC in the Integrated Cargo System ('ICS') used by DIBP to record the importation of goods into Australia through the cargo environment.

- 4M **Non-letter mail electronic data:** The originating postal operator electronically transmits to Australia Post the information obtained from the supplier, including the description of the good, the price paid for the good and the indicative weight of the package.

- 5C **Cargo collection of GST amount:** The domestic express carriers receive from the overseas express carriers an amount to cover both the domestic leg of the transport and the GST that is payable on the LVIG that are being delivered to them for importation into Australia.

In this regard, the domestic express carrier would remain responsible for remitting the GST to the ATO and would have to seek to recover the GST from the overseas express carrier under its commercial arrangements.

- 5M **Non-letter mail collection of GST amount:** The overseas postal operators will pay Australia Post an amount to cover both the terminal dues and the customs clearance fee, including an amount to cover the GST that is payable on the LVIG that are being delivered to them for importation into Australia.<sup>27</sup>

Under a transitional phased approach, Amazon proposes that Australia Post only be responsible for the GST on LVIGs originating from countries that both electronically transmit EAD (e.g. Group 1 countries, commencing from 1 July 2018 and other Kahala countries) and where a collection mechanism has been incorporated into the commercial agreements between Australia Post and the originating postal operator. Once commercial agreements for collection of GST are concluded, and as the remaining postal operators in other Group 1, and Group 2-4 countries become compliant with the IPP and electronically transmit EAD, Australia Post will need to remit the GST on LVIGs originating from those countries.

Article 20 (items 3 and 4) of the UPU (reflected in the *Letter Post Manual* and *Parcel Post Manual*) permits a designated operator of the destination country (e.g. Australia Post) to charge a designated operator of the originating country a customs clearance fee, based on the actual costs of clearing the goods through customs, and all other fees that may be due.<sup>28</sup>

In the context of the modernised transporter model, GST would be a cost to Australia Post for bringing the LVIG into Australia, and Australia Post would therefore be permitted to recover the GST as part of the transport charges that originating postal operators collect from senders (e.g. suppliers). Prior to shipment of any item to Australia, the commercial arrangements between Australia Post and originating postal operators would therefore require an originating postal operator to collect an amount from the supplier, which includes the costs of transport inclusive of the estimated GST amount.

<sup>27</sup> Under Article 20 (item 3) some postal operators (e.g. US Postal Service) allow a 'fully landed' postal price to be charged by the originating postal operators, and a similar approach may be used by Australia Post to collect an amount to cover its GST liability, along with appropriate bilateral or multilateral agreements with other postal operators.

<sup>28</sup> *Letter Post Manual* and *Parcel Post Manual* (UPU), Arts 20(3) and 20(4). Legislative amendments to the *Australian Postal Corporation Act 1989* (Cth) and the *A New Tax System (Goods and Services Tax) Act 1999* (Cth) may be required to enable Australia Post to charge the originating postal operators an additional amount on account of their GST liability.

6C **Cargo data to DIBP:** Domestic express carriers lodge SACs with DIBP (in line with current reporting requirements), allowing inspection on a risk assessment basis (if required) prior to clearance, once the LVIGs are landed. In practice, the following declaration documents in ICS will need to include a GST field:

- Full Format SAC;
- Short Format SAC (without tariff lines); and
- Short Format SAC (with tariff lines).

With the GST field added, these documents would provide sufficient evidence for the customer to evidence the GST paid on the LVIG, e.g. if they need to claim an input tax credit or GST refund. The practicalities of the required updates to SAC are discussed at 2.3.2.1 below. Utilising this existing documentation avoids the need for carriers to create new processes for generation and issuance of traditional tax invoices.

6M **Non-letter mail data used by DIBP:** Australia Post imports the LVIGs into Australia under a simplified electronic declaration using the EAD included in the barcode information, as electronically transmitted to Australia Post by the originating postal operator,<sup>29</sup> without any need for warehousing the goods at the border. The EAD information will only be used by Australia Post in assessing its GST liability, and will not be communicated electronically to DIBP's ICS. This is on the basis that LVIGs consigned through Australia Post are not required to be entered for home consumption or warehousing for other reasons, such that customs clearance will not be required.<sup>30</sup> Customers seeking documentation to evidence the GST paid on the LVIG (if they need to claim an input tax credit or GST refund) could obtain a copy of the simplified electronic declaration from Australia Post. Utilising this existing documentation avoids the need for Australia Post to create new processes for generation and issuance of traditional tax invoices.

In line with current security requirements, DIBP can inspect selected non-letter mail items, on a risk assessment basis, at the incoming international mail centres.

7C **GST payment:** The domestic express carrier self-assesses the GST liability based on electronic data received in respect of the LVIGs on a pre-arrival basis (including the description, price of the goods, and whether a GST exemption applies), and remits the amount of GST payable (if any) to the ATO, as part of the normal Business Activity Statement ('BAS') return process.

7M **GST payment:** Australia Post self-assesses the GST liability based on electronic data received in respect of the LVIGs on a pre-arrival basis (including the description, price of the goods, and whether a GST exemption applies) and remits the amount of GST payable (if any) to the ATO, as part of the normal BAS return process.

*NB: Under a proposed phased approach, Australia Post will only need to remit GST on LVIGs once it has both received EAD and has a commercial agreement which allows for the collection of the GST from the originating postal operator.*

8C **Cargo delivery:** The domestic express carrier delivers the goods to the purchaser. To effect delivery, the customer or recipient has no further payments to make.

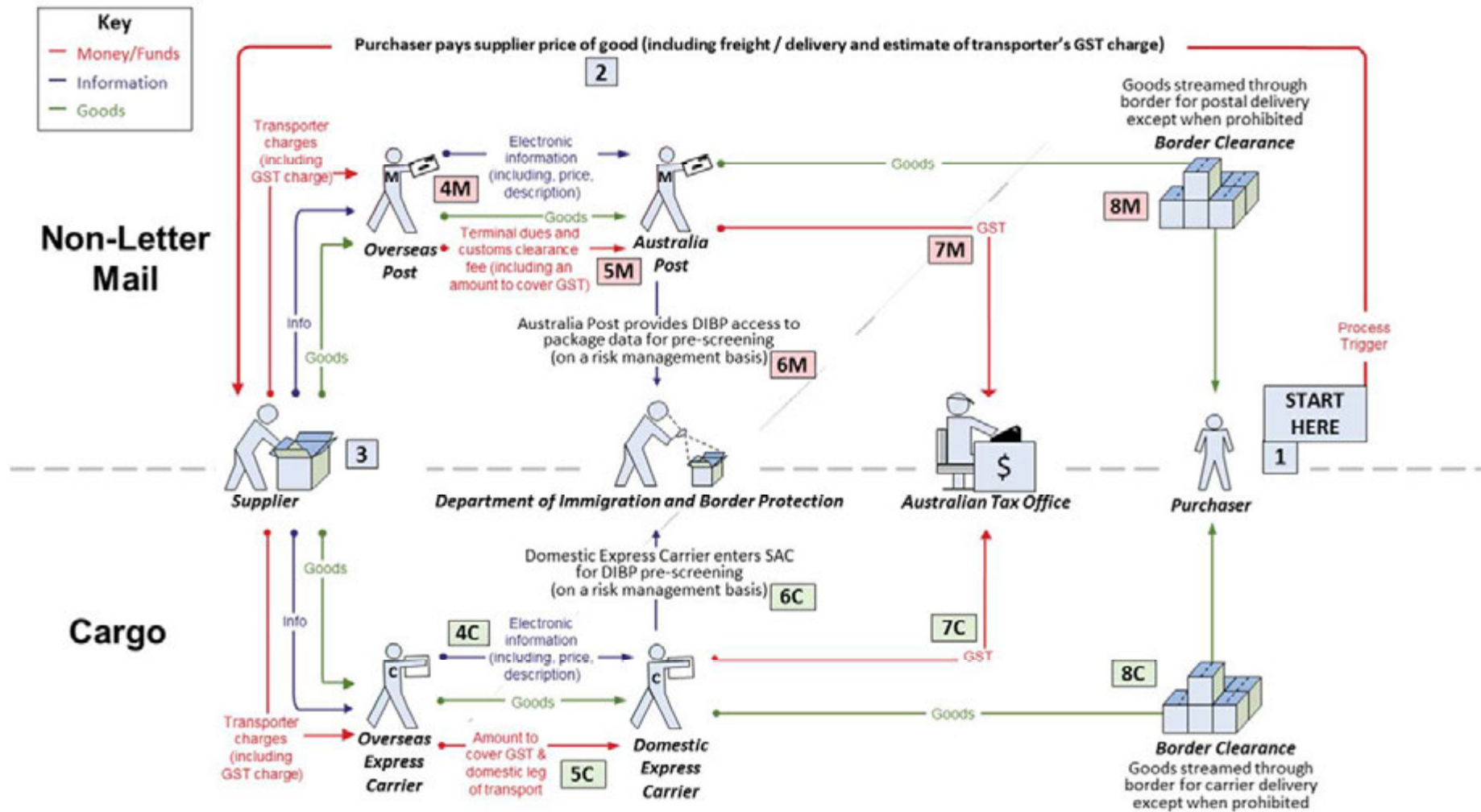
8M **Non-letter mail delivery:** Australia Post delivers the goods to the purchaser. To effect delivery, the customer or recipient has no further payments to make.

<sup>29</sup> Refer to Step 4M for the transitional phased approach.

<sup>30</sup> Subsections 68(1)(e)(i) and (ii) *Customs Act 1901* (Cth).



## Modernised Transporter Model – Transaction Flows



## Chapter 1 – Discussions on the legislated model

In the detailed analysis below, Amazon describes its concerns in respect of the legislated model, following the structure outlined in the PC Discussion Paper, for ease of cross-reference.

### 1.1 Impact on Australian consumers

Amazon considers that the legislated model will likely result in a number of adverse impacts for Australian consumers, the most salient of which are set out below.

#### 1.1.1 Increased prices

The application of GST to LVIGs is likely to result in an increase in the price of those goods to consumers attributable to both:

- (i) The actual GST payable on the LVIGs; and
- (ii) The costs incurred by the vendor / marketplace (in respect of the legislated model) or the transporters (in respect of the modernised transporter model) to comply with the legislated model that are passed on to consumers.

It is therefore in consumers' interests to choose a model which is cost efficient.

The legislated model requires 3,000 to 10,000 businesses<sup>31</sup> to incur compliance costs, this is not cost efficient, especially when the compliance rates the model achieves and the revenue it will collect are low. Cost efficiency should also take into account the costs of enforcement that will be incurred by the ATO, which are much higher under the legislated model in comparison to the modernised transporter model. While Amazon does not oppose Australia applying GST to LVIGs, Amazon is concerned that the costs of compliance (and enforcement) under the legislated model will be extremely high relative to other models for a number of reasons (*refer to detailed comments at 1.3.2 and 2.3.2*).

#### 1.1.2 Increased consumer risk

The legislated model will place Australian consumers at risk, as they will be motivated to move to smaller or non-compliant vendors / marketplaces that do not charge GST and that are less likely to be reputable, reliable and willing to provide post-sale support.

This creates real concerns for Australian consumers in respect of the safety and quality of goods they purchase, as well as increased risks of engaging with fraudulent vendors / marketplaces.

Amazon is obsessed with providing the customer the best possible experience. As part of this focus, Amazon uses sophisticated tools and processes to help ensure that the products on its websites are legitimate and safe. In concerning situations, Amazon may remove a product from (or not allow a product on) its websites, reach out to sellers or manufacturers for additional information, place relevant warnings on the product detail page, or take other actions depending on the situation. Amazon has worked co-operatively with product safety regulators and applicable government agencies in order to address risks they bring to our attention, and to bolster their safety data and help facilitate any necessary recalls. There is a significant risk that the legislated model will drive Australians to non-compliant online marketplaces that do not provide similar levels of protection for their customers.

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<sup>31</sup> Refer to ATO's Tax Regulation Impact Assessment

### 1.1.3 Reduced choice for consumers

Reputable vendors / marketplaces may limit their offerings to Australian consumers from offshore, due to the costs and complexities in complying with the legislated model.<sup>32</sup>

This could result in a smaller range of reputable and high-quality goods being available to Australian consumers.<sup>33</sup>

### 1.2 Impact on businesses

Australian businesses view the introduction of GST on LVIGs as an opportunity to remove what they perceive as an advantage for foreign businesses selling LVIGs to Australian consumers without GST, over domestic vendors / marketplaces that are required to account for GST. However, due to a lack of effective monitoring and enforcement mechanisms, the legislated model is unlikely to remove any existing market distortions that arise as a result of GST not being applied consistently nor level the playing field for Australian businesses.

Specifically, the legislated model will create an uneven playing field between offshore vendors / marketplaces, given only some will comply. This will further undermine the efficacy of the legislated model as:

- Consumers will adapt their buying behaviours to seek out the marketplaces and vendors who do not charge the GST. Non-compliant vendors / marketplaces will be able to offer lower prices both because they don't charge GST and because they are incurring lower compliance costs than compliant vendors / marketplaces. Compliant vendors / marketplaces will be at a competitive disadvantage, and this will incentivise further non-compliance; and
- As technology advances, new marketplaces will proliferate, as the cost of establishing a marketplace continues to plummet. Vendors looking to circumvent the law will easily be able to migrate their goods onto new marketplaces which operate below the \$75,000 threshold or simply choose to be non-compliant.

As a result of the expected compliance rates being low (*refer to detailed comments at 1.3.1*), pricing disadvantages suffered by Australian businesses relative to offshore vendors / marketplaces will remain.

## 1.3 Compliance

### 1.3.1 Compliance rates

At the Senate Committee Inquiry hearings, Treasury acknowledged that the legislated model would achieve a collection rate of only 54 per cent after five years, leaving 46 per cent of LVIGs entering Australia untaxed.

Since non-compliance is likely to grow as an increasing number of vendors leave the established compliant marketplaces and move to new, small, non-compliant marketplaces, Treasury's 54 per cent collection rate is likely to be a maximum rate that declines over time.

Compliance with the legislated model will be low because it:

- Requires offshore vendors / marketplaces operating in different jurisdictions to be aware of the specific and unique requirements of Australian GST law, and incur costs to adapt their

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<sup>32</sup> Refer to eBay's written submission to the Economic Legislation Committee.

<sup>33</sup> Refer to CHOICE's written submission to the Economic Legislation Committee.



businesses, which may have no presence in Australia and may trade globally, to accommodate the unique requirements of Australia;

- Lacks effective monitoring or enforcement mechanisms to allow the ATO to collect GST on LVIGs, where vendors / marketplaces do not voluntarily comply; and
- Raises a number of practical issues through the complexity of the model, including:
  - The \$75,000 GST registration threshold;
  - Determining whether the supply is B2B or B2C; and
  - Identifying the party with the GST liability under the complex hierarchy created by the legislated model between vendors, marketplaces and re-deliverers.

### 1.3.2 Compliance costs

#### 1.3.2.1 Evaluation of ATO's estimated costs

The sensitivity analysis contained in the ATO's Tax Regulation Impact Assessment for implementing the legislated model assumed a vendor population of up to 10,000 and estimated an up-front cost of \$2,600 per vendor, with an annual cost of \$400. Amazon strongly disagrees with these cost estimates. While the costs to comply for each business will vary depending on systems, processes, and business complexity, this number is unrealistic for even the simplest Australian business – let alone a foreign business operating in multiple jurisdictions. The Australia's Future Tax System Review commented that complying with the GST is costly for business as it is an operationally complex tax, designed on concepts more suitable to the 1960s than the digital potential of the 21<sup>st</sup> century.<sup>34</sup> A 2015 MYOB study found that an Australian small and medium-sized enterprise ('SME') spends, on average, \$6,778 per year of internal staff cost to comply with GST laws,<sup>35</sup> with other studies estimating this number could be closer to \$11,950 per year of employee time (with average tax-related external costs adding another 60 per cent to this figure).<sup>36</sup> Notably, these estimates are based on internal time spent on GST compliance activities, and do not include amounts spent on systems upgrades, external advisers, etc. Thus, the compliance cost of internal staff alone are 15 to 30 times higher than the Treasury estimated costs of compliance for offshore vendors / marketplaces under the legislated model. Indeed, a large international business like Amazon will incur significantly higher upfront and annual costs to comply due to factors such as the large volume of products Amazon offers and the scale and complexity of Amazon's business.

In addition, the GST registration threshold of \$75,000 captures foreign businesses that may not be required to register for and charge similar value added taxes in their own jurisdictions (as a result of higher tax registration thresholds),<sup>37</sup> making set up costs even more significant.

#### 1.3.2.2 Analysis of compliance costs with regards to new requirements

It has been suggested on a number of occasions that Amazon should be able to flick a switch to comply with the legislated model, on the basis that Amazon already estimates some taxes on cross border sales. Amazon's current ability to calculate cross-border charges primarily involves the estimation of customs fees and similar charges. Due to the unique nature of the legislated model,

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<sup>34</sup> Refer page 51 of Australia's future tax system – Report to the Treasurer available at [http://taxreview.treasury.gov.au/content/downloads/final\\_report\\_part\\_1/00\\_AFTS\\_final\\_report\\_consolidated.pdf](http://taxreview.treasury.gov.au/content/downloads/final_report_part_1/00_AFTS_final_report_consolidated.pdf)

<sup>35</sup> <https://www.myob.com/au/about/news/2015/gst-compliance-costs-smes-137-billion-a-year>

<sup>36</sup> Lignier, Philip and Evans, Chris. The rise and rise of tax compliance costs for the small business sector in Australia. Australian Tax Forum, Vol. 27, No. 3, 2012.

<sup>37</sup> See, for example, the GST / VAT registration thresholds of some of Australia's key trading partners, such as the United Kingdom (GBP 85,000 or approx. AUD 139,048) and Japan (JPY10,000,000 or approx. AUD 114,514).

significant upgrades to systems and processes to allow GST to be determined, collected and remitted will be required within Amazon's IT environment. This is also likely to be true for other vendors / marketplaces. (Notably, it is unprecedented for Amazon globally to be required to collect and remit a foreign state's domestic taxes for the sale of physical goods that take place entirely offshore.)

Amazon estimates that the initial cost it will incur to comply with the legislated model is a minimum of \$2.5 million USD and the ongoing annual cost of compliance is expected to be approximately \$500,000 USD. These costs are more than 1,000 times greater than the ATO estimate. (Amazon can provide the PC a breakdown of these estimated costs outside of this submission on a confidential basis.) The legislated model imposes several entirely new requirements that present significant implementation challenges that require resources and time to resolve.

Those new *tax* requirements under the legislated model include 1) implementing new functionality to precisely calculate Australian tax (e.g., rates, taxability rules, and customer exclusions) where none currently exists, 2) identifying and differentiating transactions based upon *consumer* versus *business* customer identification. In comparison, the modernized transporter model only requires vendors to factor the GST estimate into the total amount that they collect from the customer and remit to the transporter, and this can be calculated at a simple 10% of the price of the goods purchased. Where misclassifications arise (for example because an overseas vendor may not be familiar with Australia's GST exemptions), it is proposed that a GST refund mechanism would operate (*refer to detailed comments at 2.4.2*).

To further explain, there would be new and/or changed business requirements under the legislated model, in order to satisfy the new tax requirements listed above. This presents increased implementation challenges and will require additional resources and time to resolve. A partial list of those business requirements includes:

- a) Establishing an Australian GST sensitized product classification of catalogue to identify every product that is subject to GST, and those that are exempt;
- b) Creating Australian dollar aware (i.e. able to convert foreign currency to Australian dollars) ordering and payment processing pipelines;
- c) Altering established cross border selling fulfillment programs – including programs already facilitating the correct payment of Australian GST – to address the different and overlapping requirements of Australian law as they apply to goods sold valued at over \$1,000, and LVIGs legislation;
- d) Modifying all customer facing messaging to not only itemize the newly imposed taxes, but to also explain and differentiate between items subjected to, and not subjected to, the new legislation – including item display pages, checkout pages, post-order email confirmations, receipts and invoices, and customer account activity pages;
- e) Modifying the already well-established relationships between the marketplaces and sellers participating on those marketplaces – including substantial changes to upstream (seller registration and offer creation) and downstream (order and payment reporting) web pages, self-service tools, data feeds and reports; and
- f) Establishing end-to-end multiparty mechanisms to ensure that affected items are differentiated and processed efficiently without double taxation – including single shipments/orders comprised of both items subject to the new legislation (below \$1,000) and items not subjected (above \$1,000).

The cumulative effort of satisfying all of these (and more) business requirements is substantial and requires significant resources, both to implement initially as well as to manage on an ongoing basis.

Given the complexity of the changes needed to address the requirements described above, the ATO estimate of costs per vendor / marketplace (\$2,600 to setup and \$400 per year to operate) are very likely vastly understated even for the simplest business trading internationally.

There is also risk that if the legislated model is replicated in other jurisdictions, vendors / marketplaces will need to incur these costs over and over again to comply with each jurisdiction's unique requirements. Adoption of this model in other jurisdictions would also impact Australian exporters, as they will need to incur similar costs, on a repeated basis, to comply with the laws of each such jurisdiction.

### 1.3.2.3 Sensitivity analysis of overall compliance costs

To demonstrate just how significant the total compliance costs will be to vendors / marketplaces, Amazon has developed a sensitivity analysis. The sensitivity analysis:

- Assumes all impacted business are SMEs, when in fact many will be larger and more complex;
- Provides two estimates of upfront and annual costs, one at the 'low' and the other at the 'high' range;
- Estimates upfront compliance costs at approximately 7 times the ongoing costs. This is consistent with ATO estimates (of an upfront cost of \$2,600 and ongoing cost of \$400 per business) and Amazon's estimates (of an upfront cost of \$3.2 million and ongoing cost of \$625,000);<sup>38</sup>
- Takes into account the ATO's projection that the legislated model is likely to initially capture marginally over 3,000 taxpayers and up to 10,000 taxpayers, as set out in its Tax Regulation Impact Assessment;<sup>39</sup>
- Does not take into account Amazon's estimated costs, or that there will be other businesses that have compliance costs similar to those estimated by Amazon;<sup>40</sup> and
- Does not take into account that there will be medium to large businesses that incur costs somewhere in between the SME estimates and the Amazon estimates.

Amazon has done this for simplicity, Amazon considers the estimates are conservative and the actuals are likely to be much higher, particularly once the costs of large businesses are included.

Significant compliance costs may be prohibitive to some vendors / marketplaces, and may therefore result in high rates of non-compliance or limit the extent to which vendors / marketplaces sell LVIGs into Australia. Where compliance costs are incurred, there is a risk that these costs will be passed on to consumers in Australia in the form of higher prices (*refer to detailed comments at 1.1.1*).

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<sup>38</sup> NB: Ongoing compliance costs have been estimated based on an internal staff cost of between \$6,778 and \$11,950 per annum, grossed up by 60% for external costs (such as IT costs and external adviser costs) – see detailed comments and references at 1.3.2

<sup>39</sup> NB: The ATO Tax Regulation Impact Assessment noted a lack of certainty on the composition and size of the population of business entities that would be impacted by the legislated model, but assumed a mix of micro, SME and large businesses in its cost estimates and sensitivity analysis.

<sup>40</sup> NB: Amazon estimates its costs as \$2.5 million USD (or \$3.2 million AUD) upfront and \$500,000 USD (or \$625,000 AUD) ongoing annual costs.

## Scenario 1

The initial costs are estimated at either \$70,000 or \$140,000, and annual cost of compliance is \$10,000.

No. of Businesses	Initial Cost	Total Initial Cost	Annual Cost	Total Annual Cost Over 5 years	Total Costs Over 5 Years (All Businesses)
2,500	\$ 70,000	\$ 175,000,000	\$ 10,000	\$ 125,000,000	\$ 300,000,000
5,000	\$ 70,000	\$ 350,000,000	\$ 10,000	\$ 250,000,000	\$ 600,000,000
7,500	\$ 70,000	\$ 525,000,000	\$ 10,000	\$ 375,000,000	\$ 900,000,000
10,000	\$ 70,000	\$ 700,000,000	\$ 10,000	\$ 500,000,000	\$ 1,200,000,000
2,500	\$ 140,000	\$ 350,000,000	\$ 10,000	\$ 125,000,000	\$ 475,000,000
5,000	\$ 140,000	\$ 700,000,000	\$ 10,000	\$ 250,000,000	\$ 950,000,000
7,500	\$ 140,000	\$ 1,050,000,000	\$ 10,000	\$ 375,000,000	\$ 1,425,000,000
10,000	\$ 140,000	\$ 1,400,000,000	\$ 10,000	\$ 500,000,000	\$ 1,900,000,000

## Scenario 2

The initial costs are estimated at either \$70,000 or \$140,000 and annual cost of compliance is \$20,000.

No. of Businesses	Initial Cost	Total Initial Cost	Annual Cost	Total Annual Cost Over 5 years	Total Costs Over 5 Years (All Businesses)
2,500	\$ 70,000	\$ 175,000,000	\$ 20,000	\$ 250,000,000	\$ 425,000,000
5,000	\$ 70,000	\$ 350,000,000	\$ 20,000	\$ 500,000,000	\$ 850,000,000
7,500	\$ 70,000	\$ 525,000,000	\$ 20,000	\$ 750,000,000	\$ 1,275,000,000
10,000	\$ 70,000	\$ 700,000,000	\$ 20,000	\$ 1,000,000,000	\$ 1,700,000,000
2,500	\$ 140,000	\$ 350,000,000	\$ 20,000	\$ 250,000,000	\$ 600,000,000
5,000	\$ 140,000	\$ 700,000,000	\$ 20,000	\$ 500,000,000	\$ 1,200,000,000
7,500	\$ 140,000	\$ 1,050,000,000	\$ 20,000	\$ 750,000,000	\$ 1,800,000,000
10,000	\$ 140,000	\$ 1,400,000,000	\$ 20,000	\$ 1,000,000,000	\$ 2,400,000,000

While Amazon has modeled other scenarios for comparison, the above two scenarios (which Amazon considers to be conservative) demonstrate how costly and inefficient the legislated model is, and that the ATO's cost estimates are vastly understated.

### 1.4 Additional comments - OECD guidelines and global trends

The legislated model demonstrates a clear departure from the approach that has been taken in respect of applying GST / VAT to LVIGs in other jurisdictions, as well as analysis conducted by the OECD and their related guidance.

The legislated model is a hybrid of the vendor model and intermediary model previously considered by the OECD in its 2015 Report, *“Addressing the Tax Challenges of the Digital Economy”*. In that Report, the OECD produced a test card of the collection models, as summarised below, which scored the model as either ‘low’ or ‘medium’ against all performance criteria. By comparison, a logistics model (which involves the collection of GST from the carrier of the goods – as is the case under the modernised transporter model) was the strongest performing.

Figure 1. Collection model comparison - derived from OECD models and their test cards

	OECD Terminology	Neutrality	Efficiency	Certainty / Simplicity	Effectiveness	Fairness	Flexibility
The Bill's hybrid Vendor Collection Model	<i>Vendor Collection Model</i>	Medium	Low	Medium	Low	Medium	Medium
	<i>Intermediary Collection Model (e-commerce)</i>	Medium	Medium	Medium	Medium	Medium	Medium
Logistics Model	<i>Intermediary Collection Model (express carrier)</i>	Medium	Medium	High	High	Medium	Medium

Amazon is concerned that Australia is proposing to implement an untested and unprecedented model, which will not achieve the goals of levelling the playing field or raising GST revenue, when a better performing model is available.

## Chapter 2 – The modernised transporter model

Below are additional details on the operation and merits of the modernised transporter model.

### 2.1 An overview of changes since 2012

Trade in goods and services has dramatically increased since the PC's 2011 Inquiry into the retail industry and the Taskforce's 2012 Report. The internet has created new opportunities for e-commerce and cross-border trade. The proliferation of marketplaces and improvements in logistics have decreased the relevance of distance between buyer and seller, and changed the way in which Australian consumers engage in trade.

In addition, the internet has substantially improved the way in which data, information and payments are managed between postal operators. These changes, outlined below, provide an ideal platform for a modernised transporter model.

#### 2.1.1 Advances in technology and processes for post

Since 2012, the postal world has changed dramatically and postal operators have changed with it. This is due to two primary drivers: (1) increasingly commercialised postal companies competing with private express carriers; and (2) intergovernmental agreements under the UPU to standardise regulations for sharing data between postal operators.

Postal operators, including Australia Post, have evolved to become sophisticated competitors to express carriers. Postal operators have vastly improved their data exchange and parcel tracking capabilities, and are increasingly engaged in bilateral and multilateral commercial agreements such as the Kahala Posts Group.

Today, most of Australia's largest trading partners<sup>41</sup> transmit EAD to Australia Post to improve their competitive position *vis-à-vis* private express carriers, and to meet customer expectations and needs in respect of reliability and visibility over the delivery of items.<sup>42</sup>

Examples of new data platform technologies include:

- INTERCONNECT, to address cross-border tracking, customer service and easy returns;<sup>43</sup> and
- MEDICI (Mails Electronic Data Interchange and Customs Integration), to capture and electronically exchange customs information to clear customs and assess duty and tax.<sup>44</sup>

Regulatory requirements are also facilitating the move towards requiring EAD. Emerging supply chain requirements (including those for customs, and national and aviation security) are calling for EAD exchange on non-letter mail in the postal network. Similar EAD has been required for private express carriers for years. The primary push for reform has been driven by the UPU.

To meet these two driving forces, many Group 1 postal operators have already established systems capable of transmitting and receiving EAD. This data can be used for a multitude of purposes, including, but not limited to:

1. A streamlined customs clearance process;

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<sup>41</sup> 20 countries including, but not limited to the United States, United Kingdom, Germany, France, Spain, China, Hong Kong, Canada, Japan, Thailand, Belgium and New Zealand. Note these are not necessarily Group 1 countries as classified under the UPU.

<sup>42</sup> See the 26<sup>th</sup> Congress Report by the Postal Operations Council of the UPU, 23 September 2016.

<sup>43</sup> Refer International Post Corporation's Annual Review 2016 available at

[https://www.ipc.be/en/report\\_search](https://www.ipc.be/en/report_search)

<sup>44</sup> For further information, please refer <https://www.ipc.be/en/services/e-commerce-solutions/medici>

2. Targeted risk-based assessment of dangerous, counterfeit and illegal shipments by customs authorities; and
3. Accurate and compliant collection of applicable taxes, duties and fees.

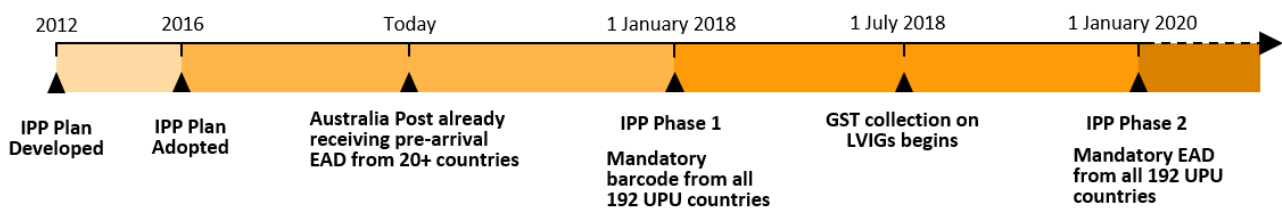
Postal operators in developing countries (Group 2, 3, and 4) and least-developed countries (Group 5) are being required to implement the same systems, apply the same harmonised barcode and transmit / receive EAD associated with non-letter mail.

### 2.1.2 Integrated Product Plan

In October 2012, at the UPU Congress in Doha, the IPP was proposed in response to increasing concerns about national / aviation security, customs clearance requirements and increasing customer expectations. The concept behind the IPP was that all non-letter mail items containing goods would be subject to consistent requirements for labelling and manifesting through the use of EAD. Between the years 2012 and 2016, a two-phased IPP approach was developed by the Postal Operations Council, of which Australia Post is a member.

Under IPP Phase 1, all 192 postal operators will be required to apply a harmonised S10 barcode<sup>45</sup> beginning 1 January 2018. This will be followed by IPP Phase 2, which requires postal operators to implement EAD transmission through the use of harmonised barcodes by 1 January 2020. This EAD transmission includes all of the information required for GST calculation, including the declared price and description of the goods.

*Figure 2: Postal Developments under the IPP*



<sup>45</sup> For further information on S10 barcodes refer:  
[http://www.upu.int/uploads/tx\\_sbdownloader/S10TechnicalStandard.pdf](http://www.upu.int/uploads/tx_sbdownloader/S10TechnicalStandard.pdf)



### 2.1.3 Recent advances in EAD exchange between postal operators

The ability to provide accurate tracking and delivery data is vital to successful e-commerce. In this regard, many postal operators have voluntarily moved to EAD interchange for tracking purposes. This provides post customers with an improved experience, as they are given visibility over the status of mail items being brought into Australia or shipped overseas.

One example of EAD interchange between postal operators is the use of E-packets.

Figure 3: E-packet example



E-packet was designed between the USPS and China Post in 2011. Since then, it has expanded to over 30 countries, including Australia and the United Kingdom. This specific example is an E-packet between China Post and the United Kingdom's Royal Mail, but it could just as well be an E-packet from China Post to Australia Post (which already use existing E-packet agreements to exchange pre-arrival data).

### 2.1.4 Use of EAD to facilitate GST collection and remittance

Further to our comments at 2.1.2, the IPP requires any originating postal operator to place a barcode on non-letter mail items (e.g. small packets containing goods) from 1 January 2018. The mandated fields include the description of the goods, the price of the goods, destination, etc. Postal operators in a number of Group 1 countries are already compliant with this barcoding requirement.

The information contained in the barcode on non-letter mail can be communicated to Australia Post electronically in advance of the parcels' arrival. Under the IPP, all postal operators in Group 1-4 countries will be required to electronically send the barcode information to Australia Post within the next 1-3 years.

Using the EAD, Australia Post will be able to calculate the GST payable on LVIGs, in many cases, prior to the arrival of the goods into Australia. In addition, Australia Post will be able to charge and receive the GST from the overseas postal operator in advance, to avoid any disruption or delay to Australia Post's delivery of the goods to Australian consumers.

In testimony to the PC, Australia Post confirmed that it is already receiving EAD from 20 of Australia's major trading partners (including the United States, the United Kingdom, and China,



among others).<sup>46</sup> Having regard to this, the costs of implementing an electronic data interface to enable use of the EAD by Australia Post's finance systems to calculate and charge the GST on LVIGs should be relatively low.

### 2.1.5 GST remittance by Australia Post

As discussed in the Feasibility for LVIG Non-Letter Mail section, above, Australia Post has the ability to charge, receive and remit the GST on low value non-letter mail importations.

With regard to Australia Post's testimony on 24 August 2017 regarding direct electronic interface between their system and DIBP's ICS system, the modernised transporter model will not place undue burden on the ICS system used by DIBP as it does not:

- Require the DIBP to assess and collect the GST on low value non-letter mail importations; and
- Propose any direct interface for the transmission of information from Australia Post to or from the DIBP (as DIBP will not be involved in the calculation or remittance of GST on non-letter mail LVIGs).

Australia Post will calculate and remit the GST on LVIGs independently of DIBP and ICS. Australia Post could also have the ability to remit its LVIG liability in a tax period following the importation of goods.

There should be no additional requirements of DIBP as a result of Australia Post remitting GST on LVIGs consigned through the post under the modernised transporter model. This is because low value 'goods'<sup>47</sup> imported into Australia through post are not required to be entered for home consumption, meaning that no formal import declarations are required to be lodged with DIBP, and there is no requirement for DIBP to issue an authority to allow for the delivery of the goods.<sup>48</sup>

### 2.1.6 National security considerations

External threats to national security are increasingly complex issues for Australia's security agencies and the DIBP. As outlined in the Australian Government's 2014 Transport Security Outlook to 2025:

*"Terrorist groups have continued to favour attacks against transport systems as they can provide mass casualties, create significant economic impact and cause public fear and anxiety."*<sup>49</sup>

According to the Australian Border Force (the enforcement arm of the DIBP) almost 200 million international mail and air cargo consignments cross Australia's borders each year.<sup>50</sup> Recent examples of potential terror threats demonstrate the technological advancements available (and required) to

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<sup>46</sup> Refer to Australia Post's testimony at the PC's public hearing available at:

[http://www.pc.gov.au/data/assets/pdf\\_file/0019/221275/20170824-melbourne-collection-models-transcript.pdf](http://www.pc.gov.au/data/assets/pdf_file/0019/221275/20170824-melbourne-collection-models-transcript.pdf)

<sup>47</sup> Section 4(1) *Customs Act 1901* (Cth). NB: that 'goods' are defined to be moveable personal property of any kind.

<sup>48</sup> Sections 4(1), 68(1) and 71AAAE(1) *Customs Act 1901* (Cth) and regulation 29 of the *Customs Regulation 2015* (Cth).

<sup>49</sup> Department of Infrastructure and Regional Development, *Transport Security Outlook to 2025*, (2014), [https://infrastructure.gov.au/security/files/Transport\\_Security\\_Outlook\\_to\\_2025.pdf](https://infrastructure.gov.au/security/files/Transport_Security_Outlook_to_2025.pdf).

<sup>50</sup> <http://www.theaustralian.com.au/national-affairs/national-security/why-crims-and-terrorists-target-our-porous-borders/news-story/2479648022d3ff9b8fc76fbe2f4ea975>

target and screen incoming international cargo and mail to identify potential threats on a pre-arrival basis.<sup>51</sup>

Australia Post's collection of pre-arrival data is needed to provide visibility to Australian security agencies on the nature of mail items entering Australia. This pre-arrival data can also be used by Australia Post to charge, receive and remit GST under the modernised transporter model. There is only an incremental amount of work needed to utilise the data collected for one purpose, for other purposes.

## 2.2 Impact on Australian consumers and business

The deficiencies of the legislated model are outlined in Chapter 1. In comparison, the modernised transporter model will provide better outcomes for Australian consumers and businesses through:

- Eliminating the price incentive for customers to move to non-compliant vendors / marketplaces;
- Reducing the risk of reputable vendors / marketplaces withdrawing from the Australian market, thereby limiting the range of reputable and high-quality goods available to Australian consumers;
- Providing consistent GST treatment of similar LVIGs (regardless of whether these are supplied by large or small businesses and of whether they are sold through a marketplace or by a vendor); and
- Reducing the potential cost impact on Australian consumers by reducing implementation and compliance costs.

Additionally, the modernised transporter model addresses known pain points associated with the Taskforce model, to improve outcomes for Australian consumers and businesses. The pain points it addresses include:

- There will be no delays in the delivery of goods arising from customs clearance procedures, this is achieved through the use of EAD;
- There will be no delays in the delivery of goods arising from having to collect GST from customers prior to delivery, as the model enables customers to make a single upfront payment;
- There are no warehousing and processing costs to be borne by transporters arising from border clearance and GST collection, for the reasons stated above; and
- There is no risk of goods being unclaimed and returned because customers refuse to make payment of the GST on the LVIGs, as the model enables the customers to make a single upfront payment.

The implementation of the modernised transporter model should also not materially impact the efficiency of the ICS for cargo or Australia Post's delivery of non-letter mail. This is because any GST liability on LVIGs will be calculated using pre-arrival electronic data and will be reported and remitted to the ATO through the transporter's BAS (normally lodged on a monthly or quarterly basis), rather than being assessed and collected by DIPB (*refer to detailed comments at 2.1.5*).

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<sup>51</sup> *Australian Financial Review*, August 4 2017, 'Near miss: terror suspects built bomb using parts sent through the post by ISIS'; *The Australian*, 6 February 2017, 'Border Force crackdown on illegal firearms arriving as parts'.

## 2.3 Compliance

Compared with a legislated model, Amazon expects that the modernised transporter model will result in significantly higher rates of compliance (delivering more GST revenue) as well as reduced costs of compliance and enforcement.

### 2.3.1 Compliance rates and GST collection

Based on figures contained in Treasury's Tax Expenditure Statements and a 54 per cent collection rate at maturity of the legislated model, KPMG estimates that the legislated model could collect \$1.2 billion in GST over the first 5 years of operation (Table 1).

In contrast, KPMG modelling of the modernised transporter model estimates that \$2.7 billion in GST will be collected in the first 5 years (Table 1). This represents a \$1.5 billion improvement in GST revenue for the modernised transporter model over the legislated model.

**Table 1: Estimated annual GST revenues, 2018-19 to 2022-23**

	GST value					
	Total	2018-19	2019-20	2020-21	2021-22	2022-23
Legislated Model	\$1.2b	\$121m	\$163m	\$229m	\$301m	\$381m
- collection rate		21.0%	27.0%	36.0%	45.0%	54.0%
Modernised Transporter Model	\$2.7b	\$292m	\$502m	\$569m	\$641m	\$675m
- collection rate: non-letter mail		14.8%	70.8%	82.3%	93.7%	93.7%
- collection rate: cargo		98.0%	98.0%	98.0%	98.0%	98.0%
Difference	\$1.5b	\$171m	\$338m	\$340m	\$340m	\$294m

The difference between the legislated model and the modernised transporter model for individual States and Territories is large. Table 2 shows that, between 2018-19 and 2022-23, adopting the modernised transporter model rather than the legislated model could result in an additional \$432 million in GST revenue for New South Wales, an extra \$343 million for Victoria, \$349 million for Queensland, \$148 million for South Australia, \$78 million for the Northern Territory, \$56 million for Tasmania, \$49million for Western Australia and \$28 million for the Australian Capital Territory.

**Table 2: Estimated LVIG GST revenues by state and territory, 2018-19 to 2022-23**

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Legislated Model	\$348m	\$276m	\$282m	\$40m	\$119m	\$45m	\$23m	\$63m	\$1.2b
Modernised Transporter Model	\$780m	\$619m	\$631m	\$89m	\$268m	\$101m	\$51m	\$142m	\$2.7b
Difference	\$432m	\$343m	\$349m	\$49m	\$148m	\$56m	\$28m	\$78m	\$1.5b

KPMG has conducted sensitivity analysis around the base case. Under the sensitivity analysis, the GST revenue advantage of the modernised transporter model over the legislated model moves in the range of \$1.2 billion to \$1.9 billion compared with the base case advantage of \$1.5 billion.

A detailed explanation of this economic modelling is contained in Annexure 2.

The disparity in GST collection rates between the legislated model and the modernised transporter model is primarily due to differences in the ability to achieve higher compliance rates for GST collection on LVIGs under the modernised transporter model, compared to the legislated model.

Specifically, under the modernised transporter model, domestic express carriers and Australia Post will be responsible for charging and remitting GST to the ATO on LVIGs entering Australia. As the GST liability is imposed on entities with a presence in Australia, the ATO will be able to rely on existing and effective enforcement mechanisms to ensure the GST is being remitted. The legislated

model, by comparison, lacks effective enforcement mechanisms (refer to detailed comments at 1.3.1).

Increased GST revenue collection will also be achieved as a result of the modernised transporter model's removal of the \$75,000 threshold as it applies to offshore suppliers (which exists under the legislated model).

### 2.3.2 Compliance costs

The modernised transporter model has been designed to include features that enable it to achieve very high rates of compliance, without bringing significant marginal costs to customers, onshore and offshore businesses or the government. This is achieved through two key features, being:

- The modernised transporter model takes advantage of existing express carrier and Australia Post processes and data to calculate, charge, receive, and remit GST, thereby reducing the need for new technical developments or investment; and
- The modernised transporter model modifies the 2012 Taskforce model to enable the free flow of goods across the border and reduces or eliminates the need to warehouse goods or hold goods for ransom until customers make a second payment to cover the GST. These modifications bring about substantial reductions in associated costs.

Additionally, the modernised transporter model requires far fewer entities to incur compliance costs (assuming that the ATO's estimates of over 3,000 and up to 10,000 taxpayers for the legislated model are accepted).<sup>52</sup>

Reducing the pool of taxpayers should also result in the ATO incurring significantly lower enforcement costs, as it will only be required to monitor and pursue non-compliance across a smaller number of entities that are based in Australia and over which it has jurisdiction.

As described in greater detail below, the compliance costs associated with the modernised transporter model are estimated at \$3.00 per shipment for both express carriers and post (which is approximately 7 per cent of the average value of shipments under \$100, and 3 per cent or less for shipments over \$100). This is less than the expected price impact under the legislated model which has been estimated at 9 per cent in modelling commissioned by eBay, Alibaba and Etsy,<sup>53</sup> for a lower rate of GST collection.

#### 2.3.2.1 Express carriers and DIBP

As outlined in Appendix B of Amazon's submission to the Economics Legislation Committee on the *Treasury Laws Amendment (GST Low Value Goods) Bill 2017*, advance notice is provided to the DIBP on the arrival of air and sea cargo via pre-arrival reporting in the ICS. This information is captured through cargo reporting and SAC declarations.

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<sup>52</sup> Refer to Mr Timothy Dyce's testimony to the Senate Economics Legislation Committee. Transcript available at: [http://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/cb02292c-5a71-41f4-8eb9-4dbe95f72163/toc\\_pdf/Economics%20Legislation%20Committee 2017 04 21 4992 Official.pdf;fileType=application%2Fpdf#search=%22committees/commsen/cb02292c-5a71-41f4-8eb9-4dbe95f72163/0000%22](http://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/cb02292c-5a71-41f4-8eb9-4dbe95f72163/toc_pdf/Economics%20Legislation%20Committee%202017%2004%2021%204992%20Official.pdf;fileType=application%2Fpdf#search=%22committees/commsen/cb02292c-5a71-41f4-8eb9-4dbe95f72163/0000%22)

<sup>53</sup> Refer to Mr James Hudson's testimony to the Senate Economics Legislation Committee. Transcript available at: [http://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/cb02292c-5a71-41f4-8eb9-4dbe95f72163/toc\\_pdf/Economics%20Legislation%20Committee 2017 04 21 4992 Official.pdf;fileType=application%2Fpdf#search=%22committees/commsen/cb02292c-5a71-41f4-8eb9-4dbe95f72163/0000%22](http://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/cb02292c-5a71-41f4-8eb9-4dbe95f72163/toc_pdf/Economics%20Legislation%20Committee%202017%2004%2021%204992%20Official.pdf;fileType=application%2Fpdf#search=%22committees/commsen/cb02292c-5a71-41f4-8eb9-4dbe95f72163/0000%22)

SAC declarations currently allow for a value to be declared, but do not include the other fields relevant to GST on LVIGs under the modernised transporter model, being a field for a GST amount and GST Exemption codes.

Amazon believes that adapting the SAC declaration to allow for the GST payable amount to be declared would not be a significant cost to DIBP. Amazon notes that DIBP has already considered necessary updates to ICS to implement the legislated model, such as the inclusion of additional information fields in the SAC.<sup>54</sup> This demonstrates that DIBP has the ability to update SAC's in the ICS, and therefore, can accommodate additional fields for the GST amount and GST Exemption codes to be declared on a SAC to implement the modernised transporter model. Indeed this change would be minor as compared to the multiple changes required under the legislated model.

Estimates made by the express carrier industry (CAPEC) in 2011, suggested it would cost \$30 per unit to process 16 million shipments valued between \$100 and \$1000. This comprised of \$15 per unit for product inspection and duty calculation, and \$15 per unit for FID/customs clearance and invoicing.

Since the modernised transporter model does not hold shipments for clearance, the latter \$15 of cost should be eliminated.

Additionally, since improvements in technology and international shipping norms have significantly simplified product inspection, and the current threshold for customs duty on LVIGs will be retained, Amazon expects the other \$15 will reduce by upwards of 80 per cent. On this basis, Amazon estimates the costs of the modernised transporter model at \$3.00 per shipment (which is approximately 7 per cent of the average value of shipments under \$100, and 3 per cent or less for shipments over \$100), excluding GST.

Domestic carriers will also be required to incur a one-time capital cost to update their systems and commercial arrangements to ensure that they are charging and remitting GST. These costs should be relatively small when amortised over multiple years and millions of shipments.

### 2.3.2.2 Australia Post

Reforms to the UPU require EAD to be transmitted to Australia Post in advance of the non-letter mail item arriving in Australia. Therefore, Australia Post has the systems and capabilities (and in respect of many countries, the data) to collect the information necessary to charge and receive the GST on the importation of low value non-letter mail.

It follows that there should only be an incremental cost to Australia Post to establish an electronic data interchange to allow their financial systems to calculate the GST payable based on the EAD it receives.

While Australia Post previously estimated that it will cost them \$900 million a year to process 56 million parcels (i.e. a \$16 per parcel cost), Amazon considers that these costs fail to take into account the improved features of the modernised transporter model and the changes in the international postal environment since 2012.

Australia Post's estimated \$900 million of compliance costs comprised:

- \$560 million for new employees, training, and consumer education costs;
- \$160 million for administration and enforcement;
- \$120 million for managing abandoned goods and returns; and

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<sup>54</sup> <http://www.border.gov.au/Cargosupport/Documents/external-release-notes-17402.pdf>

- \$60 million for IT systems, storage warehouses, and related equipment.

By comparison, USPS has previously estimated an annual cost of \$120-480 million USD<sup>55</sup> for 340 million parcels per year<sup>56</sup>, or \$0.35 USD to \$1.41 USD per shipment for a clearance and collection model similar to the modernised transporter model.

This substantial reduction from \$16 per shipment to under \$1.41 per shipment is primarily achieved due to the elimination of the hold, ransom, and two-step payment process from the modernised transporter model. Even assuming some cost uplift due to scaling, it is reasonable to estimate that the modernised transporter model could be implemented with an impact to Australian customers of \$3.00 per shipment.

## 2.4 Additional information on the modernised transporter model

### 2.4.1 Credits for GST registered businesses

To enable input tax credits to be claimed by purchasers who are GST registered entities and who acquire the LVIGs for a creditable business purpose, the GST law will require amendments so that:

- The purchaser will be recognised as having made a taxable importation of LVIGs;
- Where the purchaser is entitled to input tax credits, these input tax credits will be equal to the amount of GST remitted on the importation of the LVIGs by the transporters; and
- An entitlement to input tax credits will arise provided the purchaser holds a copy of the relevant documentation evidencing GST payable at importation, which the domestic express carrier or Australia Post must provide upon request from the purchaser. To the extent possible, the GST law should be amended to allow existing documentation produced by express carriers and Australia Post to be used or adapted for the purposes of supporting a claim for input tax credits (without requiring a formal tax invoice equivalent to be produced). This could include a copy of the ordering information from the supplier, SAC or barcode information. This documentation should not be required for low value transactions (where the price of the LVIGs is less than \$82.50 (including GST)), in line with the current GST law.<sup>57</sup>

This approach is consistent with the current treatment of creditable importations into Australia, where a copy of the import declaration is generally sufficient to support the claim of input tax credits for the GST paid on taxable importation of goods valued at more than \$1,000.<sup>58</sup>

### 2.4.2 Exempt, misclassified or returned goods

LVIGs brought to Australia may be subject to exemptions such that GST should not payable on those goods.<sup>59</sup> These exemptions should be consistent with the exemptions that apply domestically and would cover a variety of scenarios, such as course materials for an education course. These exemptions should continue to operate under the modernised transporter model, to ensure parity between domestic and cross-border transactions.

<sup>55</sup> Testimony of Robert Cintron, USPS VP of Network Operations, estimating an annual cost of \$120 to \$480m USD to implement customs collection and clearance system required by the STOP Act. <http://www.hsgac.senate.gov/download/robert-cintron-testimony-2017-05-25> at page 5.

<sup>56</sup> Letter from Secretary of Homeland Security Jeh Johnson to Chairman of Homeland Security Michael McCaul, March 10 2016. "In FY2014, U.S. Customs and Border Protection (CBP) processed approximately 340 million mail parcels arriving from foreign postal operators." <http://securepackages.org/wp-content/uploads/2016/08/Jeh-Johnson-Letter.pdf>

<sup>57</sup> Section 29-80 of the GST Act.

<sup>58</sup> Refer GST Ruling 2003/15 Goods and services tax: importation of goods into Australia.

<sup>59</sup> Subsection 13-10(b) of the GST Act.

For goods that are misclassified at the time they are brought into Australia (i.e. treated as 'taxable' rather than 'GST-free'), or are returned by Australian consumers (i.e. imported into Australia and then re-exported back to the supplier) there are a number of mechanisms available to refund the GST paid to consumers, including a direct refund from the supplier, who can recover the GST amount from the transporters under their commercial contractual arrangements. In this regard, to better facilitate the processing of refunds, it may be necessary for suppliers to require that the transporter used for the import of the LVIGs into Australia is the same transporter that is used to export those goods in the event of a return / refund.

Where this occurs, the transporter that was liable for the GST on the importation of the LVIGs will make an adjustment and be entitled to a refund of the GST initially paid on the importation of the LVIGs from the ATO as part of the self-assessed BAS process.

The above approach aligns with other provisions currently in the GST Act, which require sellers that have misclassified their supplies as taxable (rather than GST-free) to refund those customers prior to seeking a refund of the overpaid GST from the ATO.<sup>60</sup>

## 2.5 Conclusion

There is widespread acceptance that the legislated model for collecting GST on LVIGs is not enforceable and will result in low rates of compliance, short-change Australian States and Territories on GST revenue, drive up costs for consumers and fail to create a level playing field for Australian retailers. By contrast, the modernised transporter model, which can be implemented by 1 July 2018, resolves the enforcement costs and challenges arising under the legislated model because only a small number of domestic transporters (who are subject to Australian jurisdiction) are accountable for GST owed on LVIGs. The modernised transporter model creates a single point of tax assessment, enables consistent treatment of all LVIGs entering Australia, and leverages existing systems and processes to reduce compliance costs (and related costs to consumers). As a result, the modernised transporter model will lead to significantly increased compliance rates, provide an additional \$1.5 billion for Australian States and Territories over the next five years, and produce better customer experiences and more equitable outcomes for Australia's retailers.

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<sup>60</sup> See, for example, Division 142 of the GST Act.



## Annexure 1 – Answers to PC questions

### 1. Impacts on Australian consumers and business

**1.1 The Commission invites comment on the likely impacts of the adoption of the legislated Hybrid Vendor model or alternatives on Australian consumers, including:**

***1.1.1 To what extent would the different alternatives entail higher prices for consumers and/or additional processes or delays to purchases they make?***

The application of GST to LVIGs under the legislated model, or alternative models, is likely to result in an increase in the price of those goods to consumers attributable to both:

- (i) The actual GST payable on the LVIGs; and
- (ii) The costs incurred by the vendors / marketplaces (or alternatively the transporters) to comply with the relevant model that are passed on to consumers.

While Amazon does not oppose Australia applying GST to LVIGs, Amazon is concerned that the costs of compliance under the legislated model will be high compared to the modernised transporter model for a number of reasons. Please refer to our detailed comments in the body of this Submission (at 1.1 and 1.3 to Chapter 1 and 2.3 to Chapter 2) including discussion about the cost to the consumer of each model.

Amazon does not consider that there will be additional delays to Australian consumers in the delivery of LVIGs under either the legislated or modernised transporter model.

***1.1.2 Would these effects alter consumer shopping patterns and preferences?***

Amazon considers that the legislated model will place Australian consumers at risk, as they will be motivated to move to smaller or non-compliant vendors / marketplaces that do not charge GST and that are less likely to be reputable, reliable and willing to provide post-sale support.

Please refer to our detailed comments in the body of this Submission (at 1.1 and 1.2 to Chapter 1).

***1.1.3 How sensitive are consumers to prices, and to potential delivery delays and administrative processes, when shopping online?***

The sensitivity of consumers to price will be based on a number of factors, including the availability of alternative goods, the perceived value of the goods relative to competitor offerings, as well as delivery times. The relative weight of these factors will vary across consumers and product lines; Amazon has not independently sought to model these factors.

An indication of general price sensitivity in the Australian market may be drawn from consumer responses to changes in foreign currency exchange rates, as demonstrated in NAB Online Retail Sales Index In-Depth Report – March 2017 (available at <http://business.nab.com.au/wp-content/uploads/2017/05/norsi-march-2017.pdf>).

***1.1.4 To what extent would consumers switch activity to bricks-and-mortar outlets or domestic online vendors, or between different types of online foreign suppliers?***

Further to the responses at 1.1.2 and 1.1.3 of this annexure, the legislated model will create an incentive for Australian consumers to move to smaller or non-compliant vendors / marketplaces that do not charge GST and that are less likely to be reputable, reliable and willing to provide post-sale support.



It is also worth noting that consumers shop online for a number of factors. Research suggests that while price is important, it is not the sole determinant for consumer demand. For example, consumers may go online for convenience or because the goods they are seeking are not available domestically. In these circumstances, consumers are less likely to switch to bricks and mortar outlets or domestic online vendors.

#### ***1.1.5 How would these changes affect consumer welfare?***

Further to the response at 1.1.2 of this annexure, Amazon considers that the legislated model will place Australian consumers at risk, as they will be motivated to move to smaller or non-compliant vendors / marketplaces that do not charge GST and that are less likely to be reputable, reliable and willing to provide post-sale support.

Given the compliance costs that reputable vendors / marketplaces will incur, and the fact that they will be at a competitive disadvantage relative to non-compliant suppliers, they may also limit their offerings to Australian consumers from offshore, which could result in a smaller range of reputable and high-quality goods being available to Australian consumers.

Please refer to our detailed comments in the body of this Submission (at 1.1 and 1.2 to Chapter 1).

### **1.2 The Commission invites views and evidence on the likely impact on Australian businesses of imposing GST on online purchases from overseas, including:**

#### ***1.2.1 To what extent would imposing GST on online purchases from overseas have a material effect on the competitiveness of domestic retailers?***

Amazon is in the unique position of being both a company that operates offshore marketplaces (such as Amazon.com and Amazon.co.uk) that Australian consumers can use to buy LVIGs and a company that will be an online retailer in Australia when it launches the Amazon retail business in Australia. Amazon is very concerned that the desired 'levelling of the playing field' between Australian and offshore retailers will not be achieved under the legislated model, due to the low rates of compliance expected, and this will be to the detriment of both compliant overseas businesses as well as domestic retailers. Even if the Treasury's assumed collection rate of 54 per cent at maturity of the legislated model were accepted, 46 per cent of the value of all LVIGs would still enter Australia without paying GST.

The modernised transporter model will substantially increase GST collection rates (in the base case, estimated at 93.7 per cent collection for non-letter mail after four years and 98 per cent for cargo upon launch), thus achieving a greater degree of competitive neutrality. By collecting GST on nearly all LVIGs, the modernised transporter model will generate greater tax revenue, which state governments can invest in the domestic economy for the benefit of Australian consumers and businesses.

#### ***1.2.2 Which parts of retailing would be most affected by imposing GST on online purchases from overseas?***

Although Amazon has not undertaken independent modelling on this question, it expects that all businesses which sell LVIGs will be impacted by the chosen collection model.

#### ***1.2.3 Would there be effects on other Australian businesses?***

Amazon is unable to speculate on the other possible effects of imposing GST on LVIGs on domestic businesses.

## **2. The legislated Hybrid Vendor model**

### **2.1 The Commission seeks views and evidence on compliance rates under the legislated Hybrid Vendor model, including:**

#### **2.1.1 *What level of compliance can be expected?***

Compliance with the legislated model will be low because it:

1. Requires offshore vendors / marketplaces operating in different jurisdictions to be aware of the specific and unique requirements of Australian GST law, and incur costs to adapt their businesses, being businesses which may have no presence in Australia and may trade globally, to accommodate the unique requirements of Australia;
2. Lacks effective monitoring or enforcement mechanisms to allow the ATO to collect GST on LVIGs, where vendors / marketplaces do not voluntarily comply; and
3. Raises a number of practical issues through the complexity of the model, including:
  - The \$75,000 GST registration threshold;
  - Determining whether the supply is B2B or B2C; and
  - Identifying the party with the GST liability under the complex hierarchy created by the legislated model between vendors, marketplaces and re-deliverers.

Please refer to our detailed comments in the body of this Submission (at 1.3.1 to Chapter 1).

#### **2.1.2 *Are Treasury's estimates of compliance rates realistic?***

Although Amazon has not independently verified the Treasury modelling, it is concerned that the Treasury estimates overstate the level of compliance and collection (21-54 per cent) that can be achieved through the legislated model as a result of the following factors:

- Failure to account for likely changes in vendor / marketplace and consumer behaviours (i.e. shifting away from reputable and compliant vendors / marketplaces); and
- Overseas vendors / marketplaces possibly withdrawing from offering LVIGs to Australian consumers.

Please refer to our detailed comments in the body of this Submission (at 1.3.1 to Chapter 1).

#### **2.1.3 *What lessons can be drawn from countries' experiences implementing a legislated Hybrid Vendor model for digital goods?***

Amazon considers that there are fundamental differences between the supply of physical and digital goods, such that a direct comparison is inappropriate.

These differences include:

- For digital supplies there is no physical customs border so there is no alternative practical approach for the collection of GST on entry of the supplies into the country;
- Additionally, intermediaries (such as transporters) do not normally play an active role in the delivery of digital supplies, such that the GST liability is applied to vendors / marketplaces; and
- Fewer GST-free exemptions are applicable to digital supplies relative to the GST-free exemptions applicable to the supply of physical goods. This makes classifying and taxing digital goods less complex.

#### **2.1.4 *To what extent will overseas vendors and marketplaces voluntarily comply?***

Amazon is concerned that there will be a low rate of voluntary compliance due to the costs vendors / marketplaces must incur to comply with the legislated model, and because there is competitive disadvantage in complying that arises from the model's failure to create a level playing field. In addition, the model lacks effective detection and enforcement mechanisms as described in 2.1.5 below.

Please also refer to our detailed comments in the body of this Submission (at 1.3.1 to Chapter 1).

#### ***2.1.5 What factors will contribute to rates of compliance among overseas vendors and marketplaces?***

Factors relevant to vendor / marketplace compliance include:

- The availability (or lack of availability) of effective detection and enforcement mechanisms to enable the ATO to identify non-compliance and collect the GST from offshore entities;
- The volume of offshore vendors / marketplaces (up to 10,000 as estimated by the ATO);
- The jurisdictions in which those vendors / marketplaces operate, many of which do not have binding treaties or other arrangements in place with the Australian government to enable the enforcement of Australian GST outside of the jurisdiction of Australia;
- Reputational risk arising from non-compliance; and
- The governance framework and risk appetite of vendors / marketplaces.

Please refer to our detailed comments in the body of this Submission (at 1.3.1 to Chapter 1).

#### ***2.1.6 How will complying affect their competitiveness with other vendors in the market?***

Voluntary compliance with the legislated model will negatively impact the cost of doing business and the price competitiveness of compliant vendors / marketplaces compared to non-compliant or small vendors / marketplaces that do not collect and remit GST on LVIGs. Price competitiveness is impacted by both the costs of compliance (e.g. systems upgrades, implementation of new processes, etc.) and the actual GST.

#### ***2.1.7 How effective will the ATO enforcement activities be?***

Amazon has significant concerns in relation to the enforcement mechanisms available to the ATO against non-compliant vendors / marketplaces which do not have a presence in Australia. This is of particular concern in jurisdictions which may not recognise or enforce the extraterritorial nature of the legislated model. For example, Amazon has concerns on whether the ATO will be capable of obtaining enforcement action against non-compliant vendors / marketplaces in the courts of the United States or China. This represents a major flaw in the legislated model.

#### ***2.1.8 Will some vendors 'over-comply', for example by ignoring standard exemptions to GST or purchases by registered businesses?***

It is possible that some vendors / marketplaces will choose to take a simplified approach and include GST on all of their supplies. This could be due to the fact that:

- Overseas vendors will have difficulties in understanding the complexities surrounding Australian GST including whether LVIGs are taxable or GST exempt and whether customers are GST-registered or not; and
- The costs to update systems and processes to recognise such exemptions and to identify GST-registered businesses could be prohibitive for many businesses.

Any over-compliance under the legislated model represents a detriment to Australian consumers.

Amazon concedes that these risks of over-compliance may also exist in the modernised transporter model, as a result of the vendors / marketplaces making an estimate of the GST payable by the transporter on the LVIGs<sup>61</sup> and we have proposed a refund mechanism to address potential errors. A margin for error in the classification of goods for GST purposes is inherent in both models.

***2.1.9 Are there changes to the legislated Hybrid Vendor model, or other actions that government or others could take, that would increase compliance rates?***

Amazon does not consider that there are any changes readily available to the legislated model that would materially increase compliance rates. The proposed model raises material jurisdictional challenges and lacks effective compliance and enforcement mechanisms.

Amazon understands that the ATO is undertaking an education campaign to inform offshore vendors / marketplaces of their Australian GST obligations. However this alone will not address the jurisdictional challenges, or the lack of enforcement mechanisms available to the ATO, and is not scalable having regard to the number of offshore vendors / marketplaces which sell LVIGs into Australia and the number of countries in which they operate.

**2.2 The Commission is seeking views and evidence on compliance costs and their effects under the legislated Hybrid Vendor model. The issues include:**

***2.2.1 What level of compliance costs can be expected under the model?***

Amazon considers that significant compliance costs will be incurred by vendors / marketplaces to comply with the legislated model, which exceed estimates made by the ATO.

Please refer to our detailed comments in the body of this Submission (at 1.3.2 to Chapter 1) for further information.

***2.2.2 Are the CIE's estimates of compliance costs reasonable as a baseline?***

Amazon considers CIE's estimates to be more reliable than ATO estimates as a baseline.

Please refer to our detailed comments in the body of this Submission (at 1.3.2 to Chapter 1) for further information.

***2.2.3 How costly would it be for foreign vendors and marketplaces to establish or reconfigure systems to enable the assessment and remittance of GST?***

Amazon is concerned that the ATO has significantly underestimated the costs for foreign vendors / marketplaces to implement the legislated model. Please refer to Amazon's detailed comments in the body of this Submission (at 1.3.2 of Chapter 1) for further information.

***2.2.4 How much of a burden is collecting vendors' GST registration numbers for transporters?***

Although Amazon does not believe that the collection of GST registration numbers by transporters will be overly burdensome under the legislated model, any such burden would not exist under the modernised transporter model (as the model does not require the collection of a vendor's GST registration number).

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<sup>61</sup> See page 11, Modernised Transporter Model - Transaction Process, Step 2, Price.

**2.2.5 *Are there changes to the legislated Hybrid Vendor model, or other actions that government or others could take, that would reduce compliance costs?***

Amazon does not consider that there are any changes readily available to the legislated model that would materially reduce compliance costs. Fundamental changes to the model would be required to materially reduce compliance costs.

**2.2.6 *In what ways and to what extent will compliance costs on foreign vendors, marketplaces or re-deliverers impact the supply of foreign goods to the Australian market?***

Under the legislated model, there is risk that compliant vendors / marketplaces may seek to recover the costs of compliance through increased prices to consumers. Where this is not feasible (e.g. due to a lack of elasticity in demand for the goods being sold, or where compliance is cost-prohibitive) there is also risk that foreign vendors / marketplaces may cease offering LVIGs to Australian consumers, as articulated in other submissions to the Economic Legislation Committee inquiry. Please refer to Amazon's detailed comments in the body of this Submission (at 1.1.3 to Chapter 1) for further information.

**2.2.7 *To what extent will such costs be translated into higher prices for imported goods?***

Further to our response at 1.1.1 of this annexure, the application of GST to LVIGs under any collection model is likely to result in an increase in the price of those goods to consumers attributable to both:

- The actual GST payable on the LVIGs; and
- The costs incurred to comply with the relevant collection model that are passed on to consumers.

Under the modernised transporter model, the price impact is estimated at \$3.00 per shipment. Please refer to Amazon's detailed comments in the body of this Submission (at 2.3.2.2 to Chapter 2).

**2.2.8 *How probable is it that overseas vendors (including small vendors), marketplaces or re-deliverers will cease servicing the Australian market?***

The costs of compliance, relative to the business opportunity that Australia presents to vendors / marketplaces, may cause some overseas vendors / marketplaces to refocus their sales to jurisdictions or destinations with less onerous and costly tax compliance regimes.

Please refer to Amazon's detailed comments in the body of this Submission (at 1.1.3 to Chapter 1) for further information.

**2.2.9 *How will other countries' progress towards implementing a vendor-based model in their jurisdictions affect overseas vendors' and marketplaces' decisions in the Australian market?***

Amazon is not aware of other jurisdictions that have implemented a vendor-based collection model for collection of GST or VAT on international transactions. To date, Australia has taken the lead in proposing a hybrid vendor / marketplace based model on the sale of LVIGs into its jurisdiction. As such (and given the comparative size of spend in Australia on LVIGs), the costs of compliance are disproportionately large. The legislated model is unique and Amazon considers that it is unlikely to be replicated in other jurisdictions because of its unenforceability and low collection rates. However, if it were replicated elsewhere, the model would impose a significant burden on Australian

exporters who would need to incur significant costs in complying with the unique GST or VAT requirements of each country to which they sell.

### **3. The Parcel Processing Taskforce's model**

**3.1 An overarching thrust to the Parcel Processing Taskforce's model is to advocate for, and make greater use of, electronic and automated processing methods, especially in the international mail stream.**

**3.1.1 *How have international mail processing techniques evolved in recent years, and how can they be expected to evolve in the near future?***

Over the last decade, postal operators around the world have developed increased capabilities for automation, scanning, tracking and labelling. All of these advances drive productivity gains and reduce the costs associated with international mail. Please refer to Amazon's detailed comments in the body of this Submission (at 2.1 to Chapter 2) for a detailed analysis of changes in international mail since 2012.

**3.1.2 *If parcel processing has improved (or will improve), how significant are the (likely) per-parcel cost reductions?***

Advancements in parcel processing should significantly reduce the costs of collecting GST for Australia Post. Under the modernised transporter model, the price impact is estimated at \$3.00 per shipment. Please refer to Amazon's detailed comments in the body of this Submission (at 2.3.2.2 to Chapter 2).

**3.1.3 *To what extent will (have) these changes enhance(d) the viability of the Taskforce's model?***

Advancements in technology since 2012, and the modifications we have proposed to the Taskforce's model (in the modernised transporter model) make it a viable and effective model. Specifically, changes in technology and the model architecture deliver the following benefits:

- The GST can be collected upfront (as part of the sale transaction), using a simplified GST calculation approach that enables overseas suppliers to estimate the transporter's GST liability;
- The GST is assessed on the importation of the LVIGs into Australia by the transporters, and can be determined in advance (based on electronic data received on a pre-arrival basis) to enable free flow of goods across the border;
- Transporters self-assess the GST and report it through the normal GST return process, so DIBP is not required to assess or collect GST; and
- Goods are delivered without the transporter needing to collect a secondary payment from customers (which may otherwise lead to delay, eliminating a step that could result in delivery and increased costs in storing goods and returning goods where customers refuse to pay the GST).

Please refer to our detailed comments in the body of this Submission (at 2.1 and 2.3 to Chapter 2).

**3.1.4 *The Taskforce estimated collection costs for its proposed model in the international mail and cargo streams, but attached a low degree of reliability to the estimates, and cost parameters may have shifted in the intervening years. Are the Taskforce's cost estimates reasonable and still relevant? How have more recent developments impacted on this?***

Amazon considers that the Taskforce's cost estimates are no longer accurate due to advances in technology and because those costs do not reflect the model architecture of the modernised transporter model.

Please refer to Amazon's detailed comments in the body of this Submission (at 2.3.2.2 to Chapter 2).

**3.2 The Commission's early view is that the rate of compliance under the Taskforce's model would be relatively high.**

**3.2.1 *What compliance rates would be likely under the Taskforce's model?***

Amazon agrees with the Commission's early view.

The modernised transporter model, as detailed in the body of the submission, would result in a higher rate of compliance and the collection of an additional \$1.5 billion of GST revenue over 5 years, when compared with the legislated model.

Please refer to our detailed comments in the body of this Submission (at 2.3.1 to Chapter 2).

**3.2.2 *Are there avenues for non-compliance under the Taskforce's model and, if so, how could these be narrowed or closed?***

The legislated model provides significant opportunity for non-compliance, and the risks of noncompliance are much lower under both the Taskforce's model and the modernised transporter model for the reasons stated in this Submission. A single point of tax assessment with a single party (the transporter) accountable for the GST will drive consistency and compliance. Given the relatively few number of transporters present in Australia, and that they are subject to Australian jurisdiction, Amazon believes there is little risk of non-compliance and significant better enforceability under a transporter model.

**3.2.3 *How would the compliance costs be shared between the Australian Government, transporters, consumers and other parties under the Taskforce's model?***

The Taskforce estimated that compliance costs of its model would be high, and result in increased shipping charges of upwards of \$70 per shipment for express carriers and \$25 per shipment for Australia Post.

By way of contrast, the modernised transporter model can be implemented at significantly lower compliance costs, estimated at \$3.00 per shipment for express carriers and \$3.00 per shipment for post (refer to Amazon's detailed comments in the body of this Submission at 2.3.2 to Chapter 2).

Amazon expects that compliance costs associated with the modernised transporter model would be borne primarily by transporters, who may seek to pass these costs on to customers by way of increased shipping charges. Any costs to government should be low, as the modernised transporter model does not require shipments to be held for duty evaluation, and since systems are already in place to enable express carriers to provide electronic information about shipments to DIBP. In addition, the enforcement costs to the ATO are lower under the modernised transporter model given the parties liable for the GST are fewer, and they are subject to Australian jurisdiction.

This \$3.00 is less than the expected price impact under the legislated model which has been estimated at 9 per cent in modelling commissioned by eBay, Alibaba and Etsy,<sup>62</sup> for a lower rate of GST collection.

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<sup>62</sup> Refer to Mr James Hudson's testimony to the Senate Economics Legislation Committee. Transcript available at: [http://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/cb02292c-5a71-41f4-8eb9-4dbe95f72163/toc\\_pdf/Economics%20Legislation%20Committee\\_2017\\_04\\_21\\_4992\\_Official.pdf;fileType=application%2Fpdf#search=%22committees/commsen/cb02292c-5a71-41f4-8eb9-4dbe95f72163/0000%22](http://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/cb02292c-5a71-41f4-8eb9-4dbe95f72163/toc_pdf/Economics%20Legislation%20Committee_2017_04_21_4992_Official.pdf;fileType=application%2Fpdf#search=%22committees/commsen/cb02292c-5a71-41f4-8eb9-4dbe95f72163/0000%22)

**3.3 The Taskforce's model requires that transporters take responsibility for collecting GST from consumers on the LVIGs they deliver.**

***3.3.1 How would transporters go about collecting GST under this model, and how would this impact consumers?***

Under the modernised transporter model, transporters are not required to collect GST from consumers. Rather, the overseas express carriers and postal operators charge the sender of the LVIGs freight/delivery charges that include an amount to cover the GST payable by the domestic transporter on the LVIGs when they are imported into Australia. The domestic transporter then receives an amount from the overseas transporter to cover both the domestic leg of the transport and the GST that is payable on the LVIGs.

This model ensures that there is minimal impact to consumers. Specifically:

- Consumers have certainty of the total price at the time of purchase; and
- Consumers make a single payment (and there is no additional action or payment by the Australian consumer on account of GST, i.e. a payment to Australia Post or express carriers at the time the goods are physically collected is not required).

Please refer to Amazon's detailed comments on the modernised transporter model transaction process, outlined in the body of this Submission.

**3.4 The Taskforce suggested an optional legislated Hybrid Vendor model (for 'appropriately regulated overseas vendor / marketplaces') could apply in concert with its core border/transporter model and laid out some criteria for appropriate vendors.**

***3.4.1 Do these criteria appropriately balance compliance risks and border compliance costs with the desire to encourage use of the optional legislated Hybrid Vendor model?***

Amazon does not support an optional legislated Hybrid Vendor model, which introduces additional complexity into the already complex rules, and delivers no material benefit to revenue collection, compliance or consumers. A single point of tax assessment with a single party (the transporter) accountable for the GST is the only model that will drive consistency and compliance. Layered models will lead to duplicate or no GST being collected and asking multiple parties to incur compliance costs will further drive up costs for consumers.





# GST revenues from alternative LVIG collection models

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## Disclaimer

### Inherent Limitations

This report has been prepared as outlined in the Background. The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently, no opinions or conclusions intended to convey assurance have been expressed.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by Amazon management and personnel consulted as part of the process.

KPMG has indicated within this report the sources of the information provided. KPMG has not sought to independently verify those sources unless otherwise noted within this report.

KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

The findings in this report have been formed on the above basis.

### Third Party Reliance

KPMG was engaged to provide general Australian indirect tax services, and regulatory strategy and advisory services to Amazon.com, including economic modelling to provide evidence to support Amazon's regulatory strategies in Australia. The report has been prepared at the request of Amazon in accordance with that engagement. Other than our responsibility to Amazon, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.

# Background

Legislation has now been passed in Australia to extend the collection of GST to low value imported goods (LVIGs) from 1 July 2018. The legislated model is based on a hybrid vendor collection system, comprising collection of GST from direct sales to customers by individual vendors and sales through electronic distribution marketplaces. However, the Government has also requested that the Productivity Commission undertake an inquiry into alternative collection models for LVIG GST based on the logistics model set out in the 2012 report of the Low Value Parcel Processing Taskforce (LVPPT 2012).

This report updates work undertaken by KPMG earlier in 2017,<sup>63</sup> which derived preliminary revenue estimates under different LVIG GST collection models. In particular, the estimates presented here update both the assumed GST revenue base, and also the collection rates assumed under the hybrid vendor collection legislated model and under Amazon's proposed modernised transporter model. In the modernised transporter model, logistics companies collect GST on the parcels they deliver. Details of the modernised transporter model are provided in Amazon's submission to the Productivity Commission.

## Key Findings

Table 1 summarises KPMG's GST revenue results for the legislated model and the modernised transporter model. The basis of these estimates is described in greater detail in the body of this report.

**Table 1: Estimated annual GST revenues, 2018-19 to 2022-23**

	GST value					
	Total	2018-19	2019-20	2020-21	2021-22	2022-23
Legislated Model	\$1.2b	\$121m	\$163m	\$229m	\$301m	\$381m
- collection rate		21.0%	27.0%	36.0%	45.0%	54.0%
Modernised Transporter Model	\$2.7b	\$292m	\$502m	\$569m	\$641m	\$675m
- collection rate: non-letter mail		14.8%	70.8%	82.3%	93.7%	93.7%
- collection rate: cargo		98.0%	98.0%	98.0%	98.0%	98.0%
Difference	\$1.5b	\$171m	\$338m	\$340m	\$340m	\$294m

It is estimated that the legislated model will raise almost \$1.2 billion in GST revenue between 2018-19 and 2022-23.<sup>64</sup> This is based on Treasury's assumption that the collection rate under this model will grow from 21 per cent in 2018-19 to 54 per cent in 2022-23.<sup>65</sup>

In comparison, it is estimated that the modernised transporter model would have a much stronger collection rate, raising more than twice the revenue of the legislated model over this same period, or around \$2.7 billion in GST revenue over the first 5 years of operation. This constitutes an advantage

<sup>63</sup> KPMG, *Addendum A: Estimating the direct GST revenues from alternative collection models*, May 2017.

<sup>64</sup> It should be noted that these estimates are slightly higher than those published by Treasury in the 2016-17 Budget and in the Explanatory Memorandum to the Bill. The reason is that the estimates above follow the PC (2011) methodology, which included GST on freight charges. Sensitivity analysis in the final section of the report examines a base without the freight charges – reflecting Treasury's original LVIG GST estimates.

<sup>65</sup> Note the Treasury estimates indicated collection rates starting at 15 per cent in 2017-18 and then 21 per cent in 2018-19. While the removal of the LVIG threshold will now occur in 2018-19, for consistency with earlier estimates we have continued to use the original 21 per cent collection rate for 2018-19.

of the modernised transporter model over the legislated model of \$1.5 billion over the first 5 years of operation.

**Table 2: Estimated LVIG GST revenues by State and Territory, 2018-19 to 2022-23**

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Legislated Model	\$348m	\$276m	\$282m	\$40m	\$119m	\$45m	\$23m	\$63m	\$1.2b
Modernised Transporter Model	\$780m	\$619m	\$631m	\$89m	\$268m	\$101m	\$51m	\$142m	\$2.7b
Difference	\$432m	\$343m	\$349m	\$49m	\$148m	\$56m	\$28m	\$78m	\$1.5b

Table 2 shows that, between 2018-19 and 2022-23, adopting the modernised transporter model rather than the legislated model could result in an additional \$432 million in GST revenues for New South Wales, an extra \$343 million for Victoria and \$349 million for Queensland, and an additional \$148 million for South Australia, \$78 million for the Northern Territory, \$56 million for Tasmania, \$49 million for Western Australia and \$28 million for the Australian Capital Territory.

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*It is estimated that the modernised transporter model would have a much stronger collection rate than the legislated model, and could raise around \$1.5 billion more in GST revenue over the first 5 years.*

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The remainder of this report steps through the data, assumptions and methodology used to estimate the revenue presented in the table above.

Sensitivities to assumptions are presented in the final section of the report – each showing that the modernised transporter model is still likely to collect significantly more GST revenue in the five years to 2022-23 compared with the legislated model.

## Annual Revenue Impacts

### Step 1: Maximum additional GST from abolishing the threshold

To estimate the potential annual impacts of the two alternative collection models, it is first necessary to estimate the maximum additional GST available in each year from abolishing the existing \$1,000 import GST threshold. These estimates are driven by the average values and non-business parcel volumes for non-letter mail and cargo set out in Tables 3 and 4.

**Table 3: Annual volumes of low value non-letter mail, 2013, 2018-19 to 2022-23**

Value range (\$)	Individual (% share) (a)	Average value (b)	Volumes (Millions of Units)						
		(\$)	Non-Letter Mail						
			2013-14 (c)	...	2018-19	2019-20	2020-21	2021-22	2022-23
0-100	90.0	45.2	31.6	...	34.8	35.5	36.2	37.0	37.7
101-200	90.0	143.1	3.6	...	4.0	4.1	4.1	4.2	4.3
201-300	90.0	244.4	1.1	...	1.2	1.2	1.2	1.3	1.3
301-400	90.0	347.0	0.5	...	0.5	0.5	0.5	0.6	0.6
401-500	90.0	446.8	0.3	...	0.3	0.3	0.3	0.4	0.4
501-600	90.0	548.2	0.2	...	0.2	0.2	0.2	0.2	0.2
601-700	90.0	648.5	0.2	...	0.2	0.2	0.2	0.2	0.2
701-800	90.0	749.4	0.1	...	0.1	0.1	0.1	0.1	0.1
801-900	90.0	848.4	0.1	...	0.1	0.1	0.1	0.1	0.1
901-1000	90.0	943.8	0.0	...	0.0	0.1	0.1	0.1	0.1
			<b>37.5</b>		<b>41.4</b>	<b>42.3</b>	<b>43.1</b>	<b>44.0</b>	<b>44.9</b>

Sources/assumptions:

(a) PC (2011), p181

(b) CIE (2016), p21

(c) KPMG estimates based on data from Low Value Parcel Processing Taskforce (2012)

**Table 4: Annual volumes of low value cargo, 2013, 2018-19 to 2022-23**

Value range (\$)	Consignment value (% share) (a)		Average value (b)	Volumes (Millions of Units)						
	Business / other	Individual	(\$)	Cargo						
				2013-14 (c)	...	2018-19	2019-20	2020-21	2021-22	2022-23
0-100	22.2	77.8	45.2	6.0	...	8.6	9.2	9.9	10.7	11.5
101-200	28.6	71.4	143.1	2.1	...	3.1	3.3	3.6	3.8	4.1
201-300	33.3	66.7	244.4	1.0	...	1.4	1.5	1.7	1.8	1.9
301-400	30.0	70.0	347.0	0.6	...	0.8	0.9	1.0	1.0	1.1
401-500	33.3	66.7	446.8	0.4	...	0.6	0.7	0.7	0.8	0.8
501-600	33.3	66.7	548.2	0.3	...	0.5	0.5	0.5	0.6	0.6
601-700	44.4	55.6	648.5	0.2	...	0.4	0.4	0.4	0.4	0.5
701-800	44.4	55.6	749.4	0.2	...	0.3	0.3	0.4	0.4	0.4
801-900	44.4	55.6	848.4	0.2	...	0.3	0.3	0.3	0.4	0.4
901-1000	50.0	50.0	943.8	0.2	...	0.2	0.3	0.3	0.3	0.3
				<b>11.3</b>		<b>16.2</b>	<b>17.4</b>	<b>18.7</b>	<b>20.1</b>	<b>21.7</b>

Sources/assumptions:

(a) CIE (2016), p21

(b) CIE (2016), p21

(c) KPMG estimates based on data from Low Value Parcel Processing Taskforce (2012)

The prices and volumes in the Tables 3 and 4 assume:

- That the average price of each low value consignment over \$100 remains at the current average price estimated in the 2016 CIE report. This is consistent with the observation of no change in average prices for parcel groups above \$100 between the PC (2011) analysis and the CIE (2016) analysis. The price of the \$0-\$100 group did grow between 2010-11 and 2015-16. KPMG has incorporated a 2 per cent annual growth in the average price of this group over the estimation period.
- Conservative growth of 7.5 per cent in air cargo volumes and 2.0 per cent in non-letter mail volumes each year since 2013-14.

Applying a 10 per cent GST to the freight-inclusive value<sup>66</sup> of the non-business proportion of non-letter international mail and cargo would raise around \$327 million in GST from non-letter mail and \$249 million in GST from cargo in 2018-19 (a total of \$576 million), growing to around \$706 million in total for both non-letter mail and cargo in 2022-23. This should be thought of as the maximum potential GST revenue available under a policy that removes the existing \$1,000 import GST threshold.

Over the five years to 2022-23, there is an estimated \$3.2 billion in total potential GST revenue over both non-letter mail and cargo.

**Table 5: GST applied to all non-business low value non-letter mail, 2018-19 to 2022-23**

Value range (\$)	GST applicable to Non-Letter Mail (\$ million)					Total
	2018-19	2019-20	2020-21	2021-22	2022-23	
0-100	162.9	169.5	176.3	183.5	190.9	883
101-200	58.9	60.0	61.2	62.5	63.7	306
201-300	29.8	30.4	31.1	31.7	32.3	155
301-400	18.9	19.3	19.6	20.0	20.4	98
401-500	15.4	15.7	16.0	16.3	16.7	80
501-600	12.9	13.2	13.5	13.7	14.0	67
601-700	11.7	11.9	12.1	12.4	12.6	61
701-800	6.2	6.3	6.5	6.6	6.7	32
801-900	5.7	5.8	5.9	6.0	6.2	30
901-1000	4.8	4.9	5.0	5.1	5.2	25
	<b>327</b>	<b>337</b>	<b>347</b>	<b>358</b>	<b>369</b>	<b>1,738</b>

Source: KPMG estimates

**Table 6: GST applied to all non-business low value cargo, 2018-19 to 2022-23**

Value range (\$)	GST applicable to Cargo (\$ million)					Total
	2018-19	2019-20	2020-21	2021-22	2022-23	
0-100	39.3	43.1	47.2	51.8	56.8	238
101-200	40.9	43.9	47.2	50.8	54.6	237
201-300	30.5	32.7	35.2	37.8	40.7	177
301-400	26.5	28.5	30.6	32.9	35.4	154
401-500	23.5	25.2	27.1	29.2	31.4	136
501-600	21.6	23.3	25.0	26.9	28.9	126
601-700	16.6	17.8	19.2	20.6	22.2	96
701-800	16.8	18.1	19.5	20.9	22.5	98
801-900	18.3	19.7	21.2	22.7	24.4	106
901-1000	14.9	16.0	17.3	18.5	19.9	87
	<b>249</b>	<b>268</b>	<b>289</b>	<b>312</b>	<b>337</b>	<b>1,455</b>

Source: KPMG estimates

## Step 2: GST import compliance

Table 7 summarises the implied Treasury collection rates under the legislated model calculated from Treasury estimates of both the additional GST associated with the abolition of the existing \$1,000 GST import threshold and foregone GST revenue associated with a continued importation threshold of \$1,000 as set out in the 2015 Tax Expenditures Statement (TES), the last time these estimates

<sup>66</sup> In line with the methodology under PC (2011), it is assumed that freight costs for cargo are equivalent to around 30 per cent of the value of a parcel, while international non-letter mail costs are assumed to be smaller – set at 15 per cent of the value of each parcel.

were published. It also includes the Treasury estimate of a 54 per cent collection rate from 2022-23 onwards, as advised by Treasury/ATO at the Senate Legislation Committee hearings of 21 April 2017.

**Table 7: Implied collection rate under the legislated model, 2018-19 to 2022-23**

	2018-19	2019-20	2020-21	2021-22	2022-23
Foregone GST revenue	\$480m	\$480m			
GST collections	\$100m	\$130m			
Implied collection rate	21.0%	27.0%	36.0%	45.0%	54.0%

Source: Australian Treasury

The assumption of a relatively low collection rate for this type of model does not appear unrealistic. As a start, this model is designed to capture sales that pass through electronic distribution platforms and from non-resident vendors with an annual turnover of greater than A\$75,000. This means that any imported goods that are sent directly from small vendors will be excluded from the potential GST revenues.

In contrast, in the modernised transporter model, logistics companies (both post and carriers) collect GST on all parcels that are imported into Australia. This is a model more aligned to that currently applied to higher-value imports. That is, the responsibility for collection of GST is with those responsible for, and able to physically monitor, the movement of goods.

This can be expected to lead to substantially higher compliance, closer to that currently observed by the Department of Immigration and Border Protection (DIBP) for parcels over the existing \$1,000 threshold. For example, Copenhagen Economics conducted studies in 2015<sup>67</sup> and 2016<sup>68</sup>, which demonstrated collection rates of 98% for cargo goods shipments subject to GST collected as a customs clearance fee, through the use of pre-arrival customs data exchange. Thus, it could be expected that the collection rate under a modernised transporter model would also be high, and would be much higher than under the legislated model. Table 8 shows KPMG's assumed collection rates under the modernised transporter model.

**Table 8: Assumed collection rate under modernised transporter model, 2018-19 to 2022-23**

	2018-19	2019-20	2020-21	2021-22	2022-23
Non-letter mail from	14.8%	70.8%	82.3%	93.7%	93.7%
- Kahala Posts Group Countries	25%	98%	98%	98%	98%
- All Other Countries	0%	30%	60%	90%	90%
- Group 5 Countries	0%	0%	0%	0%	0%
Cargo	98.0%	98.0%	98.0%	98.0%	98.0%

Source: KPMG estimates, weighting on the value of source country parcels have been estimated using ABS merchandise imports data (Cat. No. 5368) and ABS Input-Output data on household import demand (Cat. No. 5209)

Note that the collection rate for non-letter mail is the weighted average collection rate across, Group 5 and the other countries.

KPMG's assumed collection rates under the modernised transporter model are driven by the following:

- DIBP estimates that there is a 98-99.9 per cent compliance rate for low value imports under the existing system (with the existing threshold in place).

<sup>67</sup> Copenhagen Economics, September 2015, Private Express Carriers' vs Posts' Treatment of Packages Inbound to the US: Security Risks and Customs Concerns.

<sup>68</sup> Copenhagen Economics, 4 May 2016, E-commerce imports into Europe: VAT and customs treatment, p.1.

- KPMG has assumed that parcels shipped as cargo will achieve a similar collection rate as the existing \$1,000 GST import threshold compliance rate.
- Looking at parcels arriving via mail, split across the country groupings, KPMG has assumed that:
  - For those parcels arriving from Kahala Posts Group (KPG) countries,<sup>69</sup> it is likely that they will have the systems in place to help achieve a similar high collection rate as the cargo parcels. Note that, for this base case, KPMG has assumed a conservative 25 per cent collection rate in the first year (reflecting reaching 100 per cent of Kahala volumes towards the end of that year), as the final new commercial arrangements between the KPG are amended/re-negotiated. The impact of this is tested in the sensitivity scenarios later in this report.
  - No GST is collected on LVIGs from countries in Universal Postal Union (UPU) Group 5 classification in the near future.
  - Many of the remaining countries will also have systems in place to help achieve a similar high collection rate as the cargo parcels, while others may not for a number of years – thus KPMG has assumed a gradual maturing of the collection rates for these countries, reaching a more conservative 90 per cent collection rate from 2019-20 onwards.

### Step 3: Potential revenue collections

Applying the annual collection rates discussed in Step 2 to the maximum potential annual GST from Step 1 gives an estimate of the annual GST revenue under the two alternative collection models. It is estimated that around \$1.5 billion in additional GST could be collected in total over the five years to 2023 under the modernised transporter model compared with the legislated model.

**Table 9: Potential GST revenue under alternative collection models, 2018-19 to 2022-23**

	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Legislated Model	\$121m	\$163m	\$229m	\$301m	\$381m	\$1.2b
Modernised Transporter Model	\$292m	\$502m	\$569m	\$641m	\$675m	\$2.7b
Difference	\$171m	\$338m	\$340m	\$340m	\$294m	\$1.5b

Source: KPMG estimates

Splitting this higher GST revenue across the States and Territories based on the GST shares from the latest Budget papers indicates that adopting the modernised transporter model could result, over the five years to 2023, in an additional \$432 million in GST revenues for New South Wales, an extra \$343 million for Victoria and \$349 million for Queensland, and an additional \$148 million for South Australia, \$78 million for the Northern Territory, \$56 million for Tasmania, \$49 million for Western Australia and \$28 million for the Australian Capital Territory.

**Table 10: Potential GST revenue by State and Territory, 2018-19 to 2022-23**

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Legislated Model	\$348m	\$276m	\$282m	\$40m	\$119m	\$45m	\$23m	\$63m	\$1.2b
Modernised Transporter Model	\$780m	\$619m	\$631m	\$89m	\$268m	\$101m	\$51m	\$142m	\$2.7b
Difference	\$432m	\$343m	\$349m	\$49m	\$148m	\$56m	\$28m	\$78m	\$1.5b

Source: KPMG estimates

<sup>69</sup> The KPG is an international alliance of the postal administrations of Australia, Canada, China, France, Hong Kong, Japan, Korea, Spain, Thailand, the United Kingdom and the United States.



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*KPMG modelling suggests that adopting the  
legislated model rather than the modernised transporter  
model could cost the States and Territories around  
\$1.5 billion  
in foregone GST revenue over five years.*

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# Sensitivity Analysis

The analysis above estimates a higher GST revenue collection from the removal of the LVIG threshold than that originally published by the Treasury in the 2016-17 Federal Budget. While little detail is provided in the Budget papers on the exact assumptions applied by Treasury to estimate the additional GST revenue under the legislated model, KPMG's estimates use the same collection rates. Thus, it is likely that the differences between KPMG's and Treasury's GST revenue estimates arise as a result of differences in the assumed taxable parcel values. A key difference in KPMG's taxable parcel values appears to be from our inclusion (in line with the PC 2011 methodology) of freight charges.

## TES Scenario

To allow a comparison of the two collection models that is more aligned to Treasury's estimates, the first sensitivity we test in this section is where the parcel values align with those in Treasury's recent Tax Expenditures Statements (TES). To achieve this matching, we have removed the freight charges from our estimated taxable parcel values.

**Table 11: TES scenario: potential GST revenue, 2018-19 to 2022-23**

	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Legislated Model	\$100m	\$135m	\$189m	\$248m	\$313m	\$1.0b
Modernised Transporter Model	\$230m	\$410m	\$467m	\$527m	\$554m	\$2.2b
Difference	\$130m	\$275m	\$278m	\$279m	\$241m	\$1.2b

Source: KPMG estimates

Note: Treasury estimated \$100m in 2018-19 and \$130m in 2019-20.

With lower taxable parcel values, the difference in GST collections between the two collection models is smaller, but still significant at \$1.2 billion over the five years to 2022-23.

## Lower Legislated Model Collection Rates Scenario

Under the legislated model, the analysis here uses Treasury's implied collection rates, which grow from 21 per cent in 2018-19 to 54 per cent in 2022-23. This is potentially a generous estimate, since the technology already exists to make it very quick, easy and inexpensive to create a "pop-up" electronic distribution marketplace. This technology would enable companies to avoid the GST by potentially re-inventing themselves regularly to stay below the legislated \$75,000 per annum business threshold.

To examine the implications of a slower growth and lower peak in collection rates under the legislated model, KPMG has examined a scenario where the collection rates start at 21 per cent in 2018-19, grow to 24 per cent in 2019-20 and remain at 27 per cent in the years thereafter.

**Table 12: Legislated - lower collection rates scenario: potential GST revenue, 2018-19 to 2022-23**

	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Legislated Model	\$121m	\$145m	\$172m	\$181m	\$190m	\$0.8b
- collection rate	21.0%	24.0%	27.0%	27.0%	27.0%	
Modernised Transporter Model	\$292m	\$502m	\$569m	\$641m	\$675m	\$2.7b
Difference	\$171m	\$356m	\$397m	\$460m	\$485m	\$1.9b

Source: KPMG estimates

With lower collection rates under the legislated model, the difference in GST collections between the two collection models is even larger, at \$1.9 billion over the five years to 2022-23.

An alternative scenario is one in which the GST collection rate rises gradually to reach 54 per cent at maturity but then decays as vendors move onto pop-up marketplaces. This scenario would require projections over a 10-year period, which are beyond the scope of this modelling, but the conclusions would be the same as those derived from Table 12: the difference in GST revenue between the legislated model and the modernised transporter model would be even larger than the \$1.5 billion difference in the base-case scenario.

### Alternative Modernised Transporter Model Collection Rates Scenario

Under the modernised transporter model, the base-case analysis assumes the GST collection rates for non-letter mail from the non-Kahala Posts Group (KPG) countries are slightly lower than for the KPG countries – at 90 per cent for all except group 5 countries, compared with 98 per cent for KPG countries.

However, the base case also assumes there may be a short time lag in reaching these full collection rates:

- For the KPG countries, there may be a delay in reaching 98 per cent compliance, as the final new commercial arrangements between the KPG are amended/re-negotiated. That is, the base case assumes a conservative 25 per cent collection rate for KPG countries in the first year, before reaching 98 per cent in the next and subsequent years.
- For the other countries, the base case also assumes a maturing in the collection rate for other countries, as the other countries have a few years before they must fully comply with UPU barcode labelling standards. That is, the base case assumes these countries' collection rates gradually grow to the 90 per cent collection rate by 2019-20.

This sensitivity analysis starts by examining the impact of the collection rates for the KPG countries taking longer to reach their expected levels. Scenario A shows the impact if 50 per cent of KPG volumes are included in 2019-20, and 100 per cent of KPG volumes are included in the subsequent years. For the other countries, Scenario A has the same assumption as the base case, with 30 per cent collection rates in 2019-20, 60 per cent in 2020-21, and reaching 90 per cent for subsequent years.

**Table 13: Modernised transporter model - lower collection rates scenario A: potential GST revenue, 2018-19 to 2022-23**

	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Legislated model	\$121m	\$163m	\$229m	\$301m	\$381m	\$1.2b
Modernised Transporter Model	\$244m	\$402m	\$569m	\$641m	\$675m	\$2.5b
- collection rate: non-letter mail	0.0%	41.1%	82.3%	93.7%	93.7%	
- collection rate: cargo	98.0%	98.0%	98.0%	98.0%	98.0%	
Difference	\$123m	\$238m	\$340m	\$340m	\$294m	\$1.3b

Source: KPMG estimates

Note that the collection rate for non-letter mail is the weighted average collection rate across Kahala, Group 5 and the other countries.

Table 13 shows that, with a gradual maturing of collection rates for parcels from KPG and other countries under the modernised transporter model, the difference in GST collections between the two collection models is slightly reduced compared to the base case, at \$1.3 billion over the five years to 2022-23, compared with \$1.5 billion under the base case.

On the other hand, it is also possible that the final collection rates for each group might be achieved at a quicker rate than assumed under the base case. Thus, the second sensitivity – Scenario B –

examines the impact if the collection rates for both the KPG and other countries reach their expected levels much quicker (in the first year).

**Table 14: Modernised transporter model- higher collection rates scenario B: potential GST revenue, 2018-19 to 2022-23**

	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Legislated model	\$121m	\$163m	\$229m	\$301m	\$381m	\$1.2b
Modernised Transporter Model	\$550m	\$579m	\$609m	\$641m	\$675m	\$3.1b
- collection rate: non-letter mail	93.7%	93.7%	93.7%	93.7%	93.7%	
- collection rate: cargo	98.0%	98.0%	98.0%	98.0%	98.0%	
Difference	\$429m	\$415m	\$380m	\$340m	\$294m	\$1.9b

Source: KPMG estimates

Note that the collection rate for non-letter mail is the weighted average collection rate across Kahala Group 5 and the other countries.

If the collection rates mature much more quickly, the difference in GST collections between the two collection models is somewhat greater compared with the base case, at around \$1.9 billion over the five years to 2022-23, compared with \$1.5 billion under the base case.

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*Under the sensitivity analysis, the GST revenue advantage of the modernised transporter model over the legislated model moves in the range of \$1.2 billion to \$1.9 billion compared with a base-case advantage of \$1.5 billion.*

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