



Submission on Collection Models for GST on Low Value Imported Goods

SUBMISSION FROM THE

Large Format Retail Association (LFRA)

30th August 2017

PO Box 78 Balwyn North VIC 3104 | 10/828 High Street Kew East VIC 3102
P (03) 9859 5000 **F** (03) 9859 6077

www.lfra.com.au

ACN 131 555 612 ABN 31 131 555 612

Contents

1.0	Introduction	3
2.0	The Large Format Retail Association (LFRA)	4
3.0	Collection Models for GST on Low Value Imported Goods	6
4.0	Conclusion	8

1.0 Introduction

The Large Format Retail Association (LFRA) welcomes the opportunity to make a submission on the Discussion Paper *'Collection Models for GST on Low Value Imported Goods'* released for public comment by the Productivity Commission (**the Commission**).

Broadly, low value goods (AUD 1,000 and under) supplied by overseas retailers to Australian consumers have not been subject to GST. It is well documented that this has created an uneven playing field for domestic suppliers of equivalent goods who are required to account for GST.

The recent amendments¹ to the *'A New Tax System (Goods and Services Tax) Act 1999'* seek to address this imbalance by ensuring that GST is applied to low value imports.

In our view, this was a much needed reform and we acknowledge the Government's commitment to address this issue and to ultimately strengthen the integrity and fairness of our tax system².

We understand that the Treasurer has requested the Commission to undertake an inquiry into how GST will be collected under the new law, specifically looking into the effectiveness of the legislated *'expanded vendor'* model, whereby vendors (including online marketplaces) will be responsible for collecting and remitting GST.

The LFRA's objective in this submission is to express our support for the legislated model. For the reasons set out below, we consider the legislated model is the most effective and suitable model to extend GST to low value imported goods. Further, we believe that unlike other alternative models, it can be implemented to take effect from 1st July 2018 preventing any further delays.

¹ *Treasury Laws Amendment (GST Low Value Goods) Act 2017*.

² Productivity Commission, *Discussion Paper on Collection Models for GST on Low Value Imported Goods* (July 2017), p iii.

2.0 The Large Format Retail Association (LFRA)

The LFRA is Australia's peak body representing the interests of its membership base, being Large Format Retailers, investors, owners, developers and service suppliers. Its vision is clarity, consistency and certainty of the various laws and government regulations that relate to the Large Format Retail industry in Australia.

For the 2016/17 year it is estimated that Large Format Retail sales in Australia accounted for more than \$67.7 billion or more than 22% of all retail sales. Large Format Retailers occupy approximately 30% of all retail floor space in Australia. There are more than 425,500 people (FTE) both directly and indirectly employed in the Large Format Retail sector across Australia.

Retail members of the LFRA include some of Australia's largest and most respected Large Format Retailers including the 59 individual business brands listed in the following table:

ABS Automotive Service Centres	Decathlon	Petbarn
Adairs	Domayne	PETstock
Adairs Kids	Early Settler	Pillow Talk
Amart Furniture	Fantastic Furniture	Plush
Amart Sports	Forty Winks	POCO
Anaconda	Freedom	Provincial Home Living
Autopro	Goldcross Cycles	Ray's
Autobarn	Harvey Norman	Rebel
Babies R Us	House	Rebelfit
Baby Bunting	IKEA	Robins Kitchens
Barbeques Galore	JB Hi-Fi	Sleepys
Bay Leather Republic	JB Hi-Fi Home	Snooze
BCF	Joyce Mayne	SPACE
Beacon Lighting	Kitchen Warehouse	Spotlight
Beaumont Tiles	Lincraft	Supercheap Auto
Bedshed	Midas Auto Service Experts	The Good Guys
Bunnings	National Tiles	Toys R Us
City Farmers	Officeworks	Urban Home Republic
Costco	Original Mattress Factory	
Curtain Wonderland	OZ Design Furniture	

The LFRA is supported by the following 70 Associate members that comprise of Large Format Retail developers, investors, owners and service suppliers.

ACTION Commercial	Endeavour Property Advisory	Philips Lighting
ADCO Constructions	Ethos Urban	Planning Solutions
Aeris Environmental	Eureka Home Maker Centre	Primewest
Aigle Royal Properties	Excel Development Group	Properties and Pathways
ALTIS Property Partners	Gazcorp	Ray White Retail
Arise Developments	Gibb Group	Realmark Commercial
Arkadia	Gibbins Group	REST Industry Super
Avalon Airports	Gregory Hills Corporate Park	RPS Australia Asia Pacific
Aventus	Geon Property	Savills
AXIMA Logistics	Grosvenor Engineering Group	S.B. Investments
AXIOM Properties Limited	HLC Constructions	Sentinel Property Group
Blueprint	Home Consortium	SI Retail
BNE Property	H Troon	Terrace Tower Group
Burgess Rawson	Humich Group	The Buchan Group
BWP Trust	Jana Group of Companies	TIC Group
CarbonetiX	JVL Investment Group	Transact Capital
CBRE	Lander & Rogers Lawyers	Upstream Energy
Colliers International	Leedwell Property	151 Property
Comac Retail Property Group	Leffler Simes Architects	Vaughan Constructions
Cornwall Stodart	Mainbrace Constructions	Vend Property
Cushman & Wakefield	Major Media	Virtus Insurance Brokers
CV Signage Solutions	Morgans Financial Limited	VPG Property
Deep End Services	Newmark Capital Limited	
DOVE Property Group	Ouson Group	

The LFRA is committed to supporting the economic growth of our Australian retailers against the backdrop of the digital economy that we now experience. In the years since the introduction of the GST, it has become increasingly common for Australian consumers to purchase goods located overseas and arrange for shipping of the goods into Australia with the assistance of the supplier.

In this context, the LFRA strongly supports the Australian Government's view that:

"...the fact that neither the supply nor the importation of such low value goods is subject to GST represents a significant risk to the integrity of the GST system. It also places Australian based suppliers at a growing competition advantage..."³

We are committed to supporting a measure which seeks to level the playing field for our Australian retailers.

³ *Treasury Laws Amendment (GST Low Value Goods) Bill 2017* Exposure Draft Explanatory Material (p.7, 1.15)

3.0 Collection Models for GST on Low Value Imported Goods

The legislated model (commonly referred to as the ‘*expanded vendor*’ model) imposes GST obligations on the vendor, the EDP, or the re-deliverer (depending on the supply chain).

We believe that this model is preferable for the following reasons:

- it will improve competitive neutrality for Australian retailers by ensuring that non-resident competitors are subject to an equivalent tax regime;
- it limits the burden placed on entities which did not make the underlying supply of goods for GST purposes (such as financial intermediaries or transport providers);
- it will not disrupt supply chain/delivery models in so far as no additional obligations will be placed on transport providers;
- it will generate tax revenue (in contrast to the ‘*border*’ model under which any revenue is likely to be offset by higher administrative costs); and
- it is broadly consistent with the GST collection model for cross border supplies of digital products to Australian consumers.

We note that our views are strongly aligned to those advanced by Government – see paragraph 2 of page 8 of the Discussion Paper, as follows:

“...The main benefits of this approach, as advanced by the Government, are that it would promote tax neutrality, improve competitive neutrality for Australian retailers, and generate government revenue, while entailing a relatively low cost (Hockey 2015; Morrison 2017a). For example, in contrast to the border model, this model entails much lower administrative costs for government and avoids potential delays and disruptions to goods delivery for consumers...”

The LFRA recognises that there are various stakeholders and participants who have expressed their concerns as to the viability of this model – specifically in regards to:

- A. its likely low compliance rate/limited enforceability; and
- B. the potential negative impact that it can have on Australian consumers.

As there are no directly comparable models in other GST/VAT regimes, we recognise that care needs to be taken when assessing the viability of the legislated model.

For the reasons set out below, we do not consider that these concerns should prevent the legislated model for being the preferred model for implementation.

A. Compliance Rates

The LFRA acknowledges that the legislated model's effectiveness ultimately depends on the rate of compliance by overseas vendors and EDPs.

Whilst estimating the level of compliance is difficult, we make the following observations:

- The GST system is ultimately based on self-assessment, so there will always be an inherent risk of non-compliance.
- We agree with the Australian Taxation Office's (ATO) view that a high rate of compliance is expected due to the desire of large overseas vendors and EDPs to avoid potential reputation risk or damage⁴.
- The ATO intends to work with overseas vendors and EDPs to make them aware of their obligation which of course would aid in lifting compliance.
- Whilst the border collection model would likely generate a higher rate of compliance, it would come at a significant administrative costs which undermines its effectiveness as a revenue collection model.
- The fact that an 'expanded vendor' model has been implemented for cross border supplies of intangibles should support its use as an effective means of GST collection.

B. Impacts on Australian Consumers and Businesses

A number of submissions made in the Senate inquiry into the proposed amendments highlighted the potential negative impacts of the reforms on Australian consumers.

As noted in the Discussion Paper, it was anticipated that *"...Consumers will likely face higher prices from the application of GST to low value imported goods..."*⁵

Further noting that the collection models which *"...yield the most tax revenue and/or have the largest compliance costs should have the largest impact on prices to consumers..."*⁶

The interest of Australian consumers are equally as important to us as the interests of our Retail members. The LFRA wants to support a collection model which will have a minimal impact on consumers and their online shopping behaviour.

⁴ Timothy Dyce, Deputy Commissioner, Indirect Tax, ATO, *Committee Hansard*, 21 April 2017, Melbourne, pp. 1-12.

⁵ Productivity Commission, *Discussion Paper on Collection Models for GST on Low Value Imported Goods* (July 2017), Page 6.

⁶ Ibid.

We do not believe that the '*expanded vendor*' model should necessarily impact purchase experience of Australian consumers.

Our members tell us that the desire to deliver a positive customer experience is fundamental imperative for our retailers. The same principle ought to equally apply to international retailers – that is, they will maintain their desire to service their Australian customers in the same positive manner, irrespective of the burden to collect GST.

We believe that the proposed alternative models are more likely to have a real impact on customer experience. In particular, under the border model, consumers could face significant delivery delays due to processing time at the border.

4.0 Conclusion

Based on our views above, and considering more of the broader assessment around tax neutrality between domestic and foreign suppliers, GST revenues, administrative and compliance costs/burdens and the resultant impacts on Australian consumers and businesses, the LFRA maintains the legislated model ('*expanded vendor*' model) is the best means to extend GST to low value imported goods and as such should be the preferred model for implementation.

The implementation of this model as legislated is crucial for a fairer competitive environment for Australian retailers, and more broadly for the benefit of all Australians.

Should you wish to discuss any aspect of this submission, please contact Philippa Kelly, CEO, LFRA



PO Box 78 Balwyn North VIC 3104 | 10/828 High Street Kew East VIC 3102
P (03) 9859 5000 F (03) 9859 6077

www.lfra.com.au

ACN 131 555 612 ABN 31 131 555 612