

Wednesday 30 August 2017

Collection Models for GST on Low Value Imported Goods

Productivity Commission

Submitted via webform at <http://www.pc.gov.au/inquiries/current/collection-models>

Dear Productivity Commission

**RE: Collection Models for GST on Low Value Imported Goods**

CHOICE welcomes the opportunity to provide comment to the Productivity Commission inquiry into collection models for GST on low value imported goods. CHOICE supports initiatives that create tax systems that are fair and less complex but we have longstanding concerns expressed through many reviews and inquiries that the cost of collecting GST of low value imported goods will be greater than the revenue raised. CHOICE remains concerned that the changes to the GST Low Value Threshold (LVT) will lead to additional costs to Australian consumers, on top of the GST collected. CHOICE is also concerned that the costs of administering the scheme will be greater than revenue raised. Our position remains that any change to the GST LVT should be thoroughly modelled to consider costs on government, industry and consumers before progressing.

**The effectiveness of the new measures**

The purpose of the LVT change is to enable the Australian retail industry to better compete with overseas sellers by ensuring tax neutrality. However, the legislation is unlikely to achieve its aims.

Research by CHOICE shows that the main reasons Australians shop online relate more to convenience than price.<sup>1</sup> The top reason Australians buy online is not to avoid tax, or even to generally get a cheaper deal, but so they can shop at times that suit them. This is closely followed by the convenience of having products delivered to their door. Of the consumers who were

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<sup>1</sup> CHOICE nationally representative survey (2014), see <https://www.choice.com.au/electronics-and-technology/internet/using-online-services/articles/online-shopping-and-the-gst-threshold>.

shopping overseas in order to save money, 68% said they save more than 15%, while 43% said they save over 25%.

The discussion paper seeks to consider the effectiveness of the new measures; based on consumers' reasons for shopping online it can be concluded that the new measures will not be an effective means of giving Australian bricks-and-mortar retail the competitive boost that the sector says it needs.

While applying the GST to all overseas purchases is unlikely to persuade consumers to switch from overseas online sellers to domestic bricks-and-mortar retailers, consequences from a poorly constructed collection model may still have a detrimental impact on consumer welfare, depending on the total costs passed down to consumers and any added delays or administrative processes. As stated above, convenience is a major reason why consumers choose to shop online and delays arising from poor collection models will have a detrimental impact on Australian consumers.

Any collection model that creates costs above the 10% GST for consumers or introduces onerous processes or delays will likely reduce competition in some retail markets. The increasing availability of international goods and services has been largely beneficial for Australian consumers as they have access to a wider range of products at lower prices. The expansion of options for consumers in the retail market has pushed domestic businesses to improve their practices, offering more convenient online options. A reduction of competitive pressure will likely see overall changes to price and quality of service for Australian consumers..

## **Enforcement and compliance**

It remains unclear how the new LVT arrangements will be enforced. CHOICE understands that the changes could be enforced through a range of measures, including:

- Asking businesses to voluntarily comply.
- Using various international treaties to require other governments to assist with enforcement.
- Using powers that the Federal Government already has to enforce tax measures, notably powers under the Telecommunications Act 1997.

Under section 313(3) of the Telecommunications Act 1997 government agencies, including the Australian Taxation Office, are able to seek assistance from the telecommunications industry in

order to uphold Australian laws. This section of the Act has been used by various government agencies, including the Australian Federal Police and the Australian Securities and Investment Commission, to block access to websites. It is feasible that online businesses who do not voluntarily comply with new tax measures will have their website blocked. Businesses with blocked websites will not provide additional GST revenue, and consumers suffer harm as markets become less competitive. Any collection model that relies on website blocking as an enforcement mechanism should not be pursued; currently it is not clear whether either the proposed model in the legislation or the Parcel Processing Taskforce's hybrid model will utilise this enforcement option.

The use of international treaties to require other governments to assist with enforcement should be given further consideration, with a view towards testing this enforcement option in a confined way. If an appropriate treaty partner can be identified, this could enable a targeted trial to be conducted before implementing the LVT changes across the board. Conducting a limited trial with another country will enable data to be gathered on the likely broader impact of the changes, and assist the Federal Government in determining whether or not the collection model chosen is efficient and able to achieve the aim of the legislation.

### **Logistics collection and the border model**

CHOICE does not support the logistics model of collection. This model essentially means that the tax is collected by couriers or bodies like Australia Post. This option would be simpler for companies like eBay, Amazon and Etsy, but it would not be simpler for couriers, and it definitely would not be simpler for consumers. This kind of system, as seen in international examples, pushes substantial costs onto consumers.

The United Kingdom uses a logistics-style collection model to collect VAT on goods purchased outside of the European Union. This system, if a consumer is having goods delivered through Royal Mail, requires consumers to pay an eight pound collection fee on top of VAT. This leads to consumers often not having their purchased goods delivered straight to their home. Instead, the packages need to be stored and consumers are required to go to the storage location (in this case, the post office) to pay both the VAT and the associated collection fee. This leads to substantial consumer detriment in the form of delays and higher costs. CHOICE research has found that the logistics model can add between 27 - 256 per cent to a purchase, due to

administration costs. In a worst-case scenario, this means a \$20 book could actually cost the consumer \$72.<sup>2</sup>

A border model of collection should also be dismissed, for all the reasons outlined in the discussion paper. As the paper acknowledges, a border model does not provide an efficient way for collecting GST on low value goods, due to the very high compliance and administration costs.

## Recommendations

It is far from ideal that this inquiry is occurring after the legislation has been finalised, passed and has a confirmed commencement date. CHOICE's long-standing position has been to support tax-neutrality in principle, but not to support changes to the GST LVT arrangements in the absence of clear and publicly available modelling to demonstrate that the revenue raised through any change will outweigh the costs of collection. As the Productivity Commission's discussion paper acknowledges, this important inquiry is being conducted within a shorter timeframe than normal and is directed towards a decision that has already been made. Bearing in mind the fact that the inquiry is in these ways somewhat hamstrung, CHOICE makes the following recommendations:

1. Given that all available evidence indicates collection costs will outweigh revenue, that neither the border model nor the logistics model be adopted.
2. That, whichever collection model is ultimately adopted, consideration be given to implementing the system in a tiered way, beginning with a trial conducted with a single overseas jurisdiction with whom Australia has a relevant tax treaty in place. This would allow the Federal Government to test its chosen collection model and make changes if needed. It would also enable more targeted, cost-effective engagement between the ATO and relevant overseas businesses in the lead up to the commencement of the legislation. After the trial period, an assessment of its effectiveness in terms of compliance rates and costs borne by consumers, governments and business should be undertaken to inform the broader implementation of the LVT change.

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<sup>2</sup> \$20 book plus \$2 GST plus \$50 in parcel collection costs, based on Productivity Commission estimates in the Productivity 2011 report 'Economic Structure and Performance of the Australian Retail Industry', p. 201.

3. That an overall review of the LVT change is undertaken by the Productivity Commission within three years of the legislation's commencement date.

For further information please contact CHOICE

Yours sincerely,

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