

30 August 2017

Collection Models for GST on Low Value Imported Goods inquiry

Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Dear Sir/Madam

Collection Models for GST on Low Value Imported Goods inquiry

CPA Australia represents the diverse interests of more than 160,000 members in 118 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. Against this background, and in the public interest, we provide this short submission in response to the Productivity Commission's inquiry into **Collection Models for GST on Low Value Imported Goods**.

As a professional organisation, our members have a stake in economic and social policy settings that impact not only the accounting profession, but also businesses, consumers and governments at all levels in the markets of interest to our members.

CPA Australia is supportive of the government's stated objectives of a fairer tax system, and one that supports small business. However, our organisation remains concerned as to whether the GST LVI rules are the most appropriate instrument to create the desired level playing field for all Australian businesses.

CPA Australia's submission to the Senate Inquiry on Treasury Laws (GST Low Value Goods) Bill 2017 outlined its concerns about the proposed laws imposing GST on low value imports. These included:

- Australia's 10 per cent GST rate on taxable supplies is not usually the defining price point in the consumer's decision whether to buy locally or from an offshore online supplier.
- The prospect of non-compliance by offshore suppliers, operators, and re-deliverers - whether they be in China, Europe or even the USA - will be very high, even if they register for the GST.
- There is a very low prospect of enforceability by the ATO against offshore suppliers, operators, and re-deliverers whether they are registered for the GST or not.

Many of these concerns have been borne out by subsequent findings in the Senate Inquiry report. For example, the Senate inquiry found that the Department of the Treasury expects that the compliance rate with the new laws - by year three - would be 25 to 30 per cent, and that it would peak at around 54 per cent by the 2022-2023 year.

Further, Treasury's projections showed that the current laws will only raise around \$300 million over the forward estimates.

Given these projections, it is difficult to fathom how governments could see this model of taxing low value imports as a viable long term arrangement. It raises the prospect that it intended as a stop-gap measure, only remaining in place as a protection mechanism for Australian businesses until technology is available to support a more cost-effective and seamless model at some point in the future.

So while CPA Australia is supportive of tax competitive neutrality for Australian businesses, it would seem that the current model will not provide the competitive neutrality sought because of its limited coverage and enforceability. Further, it will not collect very much tax for the states.

To pursue a model that fails on this revenue imperative does little to assist state/ territory reliance on the Commonwealth for funding at a time when funding requirements for, amongst other things, health and aged care, are at all-time highs and continuing to grow.

CPA Australia again raises the issue of the potential for retaliation by other tax jurisdictions on Australian exporters with similar tax models. Such moves would not be positive for Australian exporters.

CPA Australia strongly advocates for policies that encourage business innovation, growth and entrepreneurship in Australia. As CPA Australia's most recent Asia-Pacific Small Business Survey shows, Australian small businesses continue to be less likely than others in the Asia-Pacific region to use social media and online commerce for business purposes. However, the survey also shows that those Australian small businesses selling online are significantly more likely to be growing than those that are not.

However, the uptake of these business tools and conduits by Australian small businesses has been sluggish. Any retaliatory tax moves from offshore markets could further stymie development in this important area of potential growth for Australian businesses.

As a final comment, the many reviews on GST and low value imports over the last six years have established that there is no single model or simple solution that is a stand-out when it comes to applying GST to low value imports. Every model has some form of compromise, and vary degrees of compliance costs. CPA Australia wishes the Productivity Commission review well with its inquiry.

Yours faithfully

Paul Drum FCPA

Head of Policy