Submission to the Productivity Commission
Collection Models for Low Value Goods

Corporate Profile

Wise Tech Global ("WTG") is an Australian software provider in logistics technology solutions that improve productivity, visibility, efficiency, quality of service and profitability. WTG is renowned for its next-generation platform, CargoWise One, which is the industry's only integrated single platform supply chain logistics management system with truly global capability. Since 1994 WTG has helped logistics companies efficiently manage the movement of goods and information.

WTG is an Australian based and Australian majority owned ASX listed public with offices in Australia, China, New Zealand, Singapore, South Africa, United Kingdom and the United States.

Background

The Treasury Laws Amendment (GST Low Value goods) Act 2017 ("the Act") received Royal Assent 26 June 2017. The Bill provides for the Productivity Commission to undertake a review of this new law and to report to the Federal Government by 31 October 2017. Commencement of the law is not, however, dependent upon this review.

The Act provides that Goods and Services Tax ("GST") will be imposed on low value imports of goods imported by consumers from 1 July 2018. The legislation provides that:

- Supplies of goods valued at A$1,000 or less at the time of supply a taxable supply if the goods are purchased by consumers and are brought into Australia with the assistance of the supplier;
- the operators of electronic distribution platform (EDP) such as Amazon and eBay are to be treated as the supplier of low value goods if the goods are purchased through the platform by consumers and brought into Australia with the assistance of either the supplier or the operator;
- Re-deliverers as the suppliers of low value goods if the goods are delivered outside of Australia as part of the supply, and the re-deliverer assists with their delivery into Australia as part of a shopping or mailbox service that it provides under an arrangement with the consumer;
- Only overseas suppliers with consumer sales to Australia of $75 000 per year or more are required to collect and remit GST under the proposed model, however, EDPs with taxable sales to consumers of more than $75 000 are required to collect GST on all sales of low value goods that occur on their platform, including by sellers with sales of less than $75 000.
- Under the legislated model, registered vendors, EDPs and redeliverers must provide the DIBP with details of their GST registration number and (where applicable) the ABN of the purchaser. This means that, although the legislation does not require that freight companies and express carriers collect this information and report it to the DIBP, in practice they will need to do so.

Treasurer Scott Morrison said in a statement that it would help level the playing field for Australian businesses competing against those overseas. Internet commerce has grown substantially and is no

longer immaterial, with National Australia Bank statistics quoted in the Discussion Paper showing that imports of low value goods from overseas represent approximately 20% of internet purchases, or approximately $4 billion per annum.

Commentary as requested

The Commission invited comment on a number of matters, including whether there should be changes to the proposed legislated model, or other actions that government or others could take, that would increase compliance rates.

The Productivity Commission Discussion Paper advises it will draw upon:

- Established policy principals re tax and economic efficiency;
- Feasibility of different approaches and their likely impacts on tax neutrality between domestic and foreign suppliers;
- GST revenue;
- Administrative and compliance costs and burdens;
- Impact of any delays and disruptions for consumers;
- Effects on Australian businesses.

The legislated "expanded vendor" model

The legislated model requires vendors, as well as electronic delivery platforms ("EDPs") and redeliverers, to register for GST with the ATO, and then collect and remit GST on low value imported goods (currently $1000 or less).The reports from the Commission, the ATO, EDPs and redeliverers indicate that the tax will raise very little revenue and will be expensive and complex to administer

It can be assumed also that compliance with the proposed system will be low given that the regulator has little authority to pursue overseas companies to ensure compliance and/or payment. Treasury's revenue estimates indicate that compliance will reach an expected peak of only 54 per cent (Treasury 2017, p. 4) and reach that only after a number of years. CPA Australia, the Tax Institute and import professionals believe that these assumptions are optimistic (Deutsch 2017; Drum 2017).

It should be considered too that the imposition of such a tax may be contrary to some or all of Australia's Free Trade Agreements. One of the central tenants of Australian foreign policy is to reduce barriers to trade and foster economic integration and compliance with our international agreements should be paramount. As an example, Article 2.10 of the Australia United States free Trade Agreement ("AUSFTA") provides:

"Each Party shall ensure, in accordance with Article VIII:1 of GATT 1994 and its interpretive notes, that all fees and charges of whatever character (other than customs duties, charges equivalent to an internal tax or other internal charges applied consistently with Article III:2 of GATT 1994, and antidumping and countervailing duties applied pursuant to a Party's law), imposed on or in connection with importation or exportation, are limited in amount to the approximate cost of services rendered ***and do not represent indirect protection of domestic products or a taxation of imports or exports for fiscal purposes.*****"**

Further, the cost of imposing and administering the GST will be significant for both government and impacted suppliers and unlikely to produce an improvement in revenue. In its 2011-2012 Report, the Commission (2011: 169) found that "In most scenarios estimated, total collection costs would still exceed additional revenues or generate net efficiency losses for the community" and further, that based upon annual volumes of parcels, abolishing the low value threshold would add at least $2 billion to administrative and compliance costs, to facilitate the collection of only around $600 million in revenue from GST and duties.

Importantly, the proposed tax does not address the under riding issue of limited ranges and high retail prices in Australia.

Current processing: the border model

The Customs Act 1901 requires that all goods imported into Australia must be reported. The detail required in that report varies as to whether the goods are over or under the LVT. Goods valued above the LVT threshold are reported on a full import declaration upon which Import duties, GST and an import processing charge ("IPC") are payable to both Immigration and Border Protection (DIBP) AND Agriculture and Water Resources in accordance with T*he Australian Government Cost Recovery Guidelines* (AGCRG).

LVT goods arrive by air, sea or post. Parcels imported by post each arrive on a unique consignment note through EMS. This consignment note is electronically reported to DIBP through the Integrated Cargo System (ICS) prior to delivery of the goods.

Consignments through couriers / ecommerce goods / platforms arrive on air waybills. Each is separately reported via a Cargo Report or Self-Assessed Clearance (SAC). Reporting of LVT is by one of the following:

- Self Assessed Clearance (SAC) – Full Declaration Format, includes Tariff Lines
- Self Assessed Clearance (SAC) – with Tariff Lines
- Self Assessed Clearance (SAC) – without Tariff Lines
- Air Cargo Report SAC
- Sea Cargo Report SAC

Currently IPC's are only levied on goods above the LVT creating an uneven and unfair playing field resulting in cross subsidisation by full import declarations.

This model would require each consignment above the (new) threshold to lodge a SAC and pay GST at the time of declaration. Consignments would not be released until the GST was paid. As a consequence there would be backlogs and delivery delays. It is considered that the ICS would be unable to cope with the much increased volume of individual reporting. The border collection model would not provide customer satisfaction and convenience. The Commissions Discussion Paper references CHOICE, which argued that the use of a similar model in the UK (for goods valued above the UK LVT of £15) led to parcel delivery delays and high processing costs passed on to consumers (Turner 2017).

The alternative model

WiseTech therefore submit that preference should instead be given to a two pronged approach by:

1. Reducing the current low value threshold (LVT) of $1000, below which an import declaration is not required; and
2. Whether or not the LVT is reduced, imposing a flat import processing charge, rather than a variable GST, on each consignment that falls within the de minimus range.

This appears to be more in keeping with the "Parcel Processing Taskforce's Model". It is also in accordance with Australia's obligations under the Revised Kyoto Convention, which provides for a mandatory LVT for small consignments, but does not suggest the amount of that LVT.

The LVPPT Report found that most consignments currently subject to the de minimus provisions were less than $300 value, and that, within this, an estimated 73 per cent of international mail parcels containing goods below the LVT were valued at $100 or less. In relation to this, the GST, were it applicable, would have been a maximum of $10 per consignment. It is suggested that the GST revenue foregone (i.e. maximum $10 per consignment) could be used in determining the fixed fee. It must be noted however that no basis for these calculations or verification of spend has been provided. If the value is based upon those declared on the consignment note / air waybill, it must be noted that these values are often incorrect for consignments through the couriers (UPS, FedEx, DHL and TNT).

It then follows that if the CAPEC assertion in its 2011 submission to the Commission is correct, that is, that in 2009-10 44.067 million low value consignments entered Australia valued at $1.748Billion, then a potential import processing charge of only $5-$10 would provide a substantial return to government and exceed GST foregone while at the same time maximising compliance and minimising costs.

An Import Processing Charge (IPC) is already payable on import declarations for each consignment valued over $1000. Cross subsidisation of LVT goods is occurring because no fees are payable upon them, whereas fees are payable on Full Import Declarations for goods imported in excess of LVT threshold. It is suggested that this proposed fee on the remaining LVT consignments would be collected by the carriers and remitted to the ATO at an agreed time and place as is duty and GST currently on import declarations. A fixed fee per consignment is simple to calculate and easy to collect as against the complex legislated model and its problematic compliance issues.

The attached "External Release Notes 17.4.02" from DIBP to software providers, such as WiseTech, indicate that an import processing charge will be applied to SACS and Cargo Report SACs in which the subject LVT goods are reported to DIBP (Page 1). The couriers and Australia Post indicate that they are concerned as to the potential for increased costs if required to collect GST under the proposed model(s). If this is correct, then an adjustment to the amount of that fee would achieve the same result as the imposition of a variable GST but at less cost and with a much higher degree of compliance, given the parties are located in Australia and already reporting to DIBP.

Carriers are already subject to reporting requirements in UK, Canada, EU and New Zealand and would therefore appear to have systems and/or processes for collection and remittance of duties, taxes and charges in place for these jurisdictions.
The goal of any change in processing ought to be the minimising of red tape and the facilitation of trade as is required by Australia's international obligations such as the Trade Facilitation Agreement. Efforts to

collect tax from trade should not be prioritised over the trade itself and additional documentation and return requirements should not be put on the importing community.

Given then that there is a cost in overseas freight / postage already paid in bringing any consignment to Australia, this fee, as a known fixed cost, could be relatively easily added into fees already payable by the importer for each consignment. As it is payable by the carriers, each of whom may be expected to already be resident in Australia, it could be expected to achieve a high compliance rate. As a cargo report for each consignment is already reported to DIBP through the ICS or CargoWise, the fee could be made payable at the time the cargo report is lodged or such other time and place as required. The cargo report shows the carrier and has already been amended by DIBP to require declaration of the vendor or the supplier. As in the legislated model, if government does not require assessment of consignments below the LVT, then the inputs and processing required by couriers and the mail would not significantly change.

Conclusion

In 2005 when import processing charges were imposed in the DIBP's Integrated Cargo System (ICS) on import declarations, they were not imposed on self-assessed clearances (SACs) for consignments of a value less than $1000. This was as a result of a hard fought campaign by the carriers of these consignments (CAPEC). It is submitted, however, that perhaps it is time for a review of this decision. If the purpose of the imposition of a tax or charge on imported low value goods is to level the playing field for Australian retailers, then it is also just and equitable to consider changing this unequal treatment to also level the playing field for all importers and service providers.

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