



Australian Government
Productivity Commission

Collection Models for GST on Low Value Imported Goods

Productivity Commission
Discussion Paper

July 2017

The Commission has released this discussion paper to assist individuals and organisations to prepare submissions.

It contains and outlines:

- the scope of the study
- the Commission's procedures
- the Commission's early views on some matters under reference
- matters about which the Commission is seeking comment and information

The Discussion Paper

The Commission has released this paper to provide an indication of the direction of the inquiry and assist individuals and organisations to prepare submissions to the inquiry. It contains and outlines:

- the scope of the inquiry
- the Commission's procedures
- the Commission's early views on some matters under reference
- matters about which the Commission is seeking comment and information
- information on how to make a submission.

Participants should not feel that they are restricted to comment only on matters raised in the discussion paper. The Commission wishes to receive information and comment on issues which participants consider relevant to the inquiry's terms of reference.

Key inquiry dates

Receipt of terms of reference	30 June 2017
Due date for submissions	30 August 2017
Public hearings	Late August 2017
Final report to Government	31 October 2017

Submissions can be lodged

Online:	http://www.pc.gov.au/inquiries/current/collection-models
By post:	Collection Models for GST on Low Value Imported Goods Productivity Commission GPO Box 1428 Canberra City ACT 2601, Australia

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The Productivity Commission

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

Further information on the Productivity Commission can be obtained from the Commission's website (www.pc.gov.au).

Terms of reference

Collection Models for GST on Low Value Imported Goods

I, Scott Morrison, Treasurer, pursuant to Parts 2 and 3 of the *Productivity Commission Act 1998*, hereby request that the Productivity Commission (the Commission) undertake an Inquiry into collection models for GST on low value imported goods.

Background

Historically, GST has not applied to the supply of low value imported goods, creating an uneven playing field. The Government is committed to addressing this and strengthening the integrity and fairness of our tax system.

Legislation has been passed that will collect GST on low value imported goods from 1 July 2018. The legislation uses a vendor collection model, whereby vendors (including suppliers and online marketplaces) will collect the GST on low value imported goods at the time of sale.

Scope of the inquiry

The Inquiry will consider the matter of the amendments to the A New Tax System (Goods and Services Tax) Act 1999 in relation to collecting GST on low value imported goods, including:

- a) the effectiveness of the amendments
- b) whether models for collecting goods and services tax in relation to offshore supplies of low value goods other than the amendments might be suitable (including evaluation of the effects of the models on Australian small businesses and consumers)
- c) any other aspect the Commission considers relevant to the implementation of the amendments.

The Commission is required to make recommendations in relation to matters (a)-(c).

Process

The Commission is to hold hearings for the purposes of the Inquiry. The Commission should consult with consumer representatives, small businesses, industry stakeholders and Commonwealth, State and Territory governments.

The final report should be provided to the Government by 31 October 2017 to allow certainty for industry on legislation that is to commence on 1 July 2018.

Scott Morrison
Treasurer

[Received 30 June 2017]

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1 About the inquiry

Background

The Australian Parliament recently legislated the introduction of new measures to collect Goods and Services Tax (GST) on low value imported goods, from 1 July 2018.

Aside from tobacco and alcohol products, physical goods with a value of \$1000 or less are currently exempt from GST when imported into Australia. This contrasts with the treatment of imports of higher value goods and of domestic sales of goods, which generally do incur GST.

The exemption for low value imported goods was an element of the original GST provisions that commenced in July 2000. One of its effects has been to advantage consumer imports of low value goods relative to domestic sales of equivalent goods. However, with internet commerce still in its infancy in 2000, consumers were directly importing only a small quantity of low value goods.

Internet commerce has grown markedly since then. In the year to March 2017, NAB (2017) estimated that about one fifth (approximately \$4 billion) of total Australian online purchases were from abroad. With online retail being equivalent to around 7 per cent of sales from the traditional bricks-and-mortar retail sector, the exemption from GST is no longer immaterial in either a tax revenue or competitive neutrality sense.

Some of these concerns have arisen in other countries too. After many years of work, in 2015 the OECD published a survey of potential approaches to collecting GST or value added tax on low value imported goods as part of its broader *Addressing the Tax Challenges of the Digital Economy* agenda (OECD 2015). Several countries are now investigating methods to improve the efficiency of their collection of GST/value added tax on imported goods and extend collection to lower value goods.

In Australia, the Productivity Commission examined whether the \$1000 ‘low value threshold’ (LVT) (which also applies to customs duties) should be removed or lowered, in a 2011 inquiry into the retail industry. The Commission found that the benefits of doing so would be far outweighed by the collection costs. It recommended the investigation of new approaches for handling low value imported parcels that could enhance the cost-effectiveness of reducing the threshold, particularly as the volume of online purchasing increased (PC 2011).

The Government subsequently established a Low Value Parcel Processing Taskforce. Its 2012 report recommended a new and simplified approach to collecting GST on low value imported goods that could allow the GST threshold of \$1000 to be lowered (LVPPT 2012).

In the May 2015 Budget, the Australian Government announced a measure to collect GST on cross-border supplies of *digital* products and services. Legislation was passed and the change took effect on 1 July 2017. This follows implementation of similar measures elsewhere (such as the EU), and is distinct from GST collection on low value *physical* goods.

In mid-2015, COAG agreed to extend the GST to cross-border supplies of low value goods, and in 2017 the Australian Government introduced a *Treasury Laws Amendment (GST Low Value Goods) Bill 2017*. The bill retained the LVT at \$1000 but provided for a new system for imported goods that fall under that threshold. It places the onus on foreign vendors, as well as redelivers and electronic distribution platforms (EDPs), to collect and remit GST on those goods (see section 2). These new measures were also to commence on 1 July 2017.

The bill was subsequently referred to the Senate Economics Legislation Committee, and then passed into legislation in June 2017 with two amendments. These were to delay by one year the commencement of the new measures, and that there be a Productivity Commission inquiry on the matter.

Scope and approach

The inquiry's terms of reference require the Commission to consider:

- the effectiveness of the new measures
- whether models for collecting GST in relation to offshore supplies of low value goods other than the new measures might be suitable (including evaluation of the effects of the models on Australian small businesses and consumers)
- any other aspect relevant to the implementation of the new measures.

The terms of reference refer to the collection only of GST from low value imported goods. Changes to the collection of other taxes and charges subject to the LVT are beyond the scope of this inquiry. This includes customs duties (such as tariffs) and border processing fees and charges. However, in considering certain collection models, the interactions with existing systems and taxes may arise.

The Commission is to report to the Government by 31 October 2017, necessitating streamlined consultation procedures for the inquiry — box 1.

Box 1 Consultation

The timeframe for this inquiry is short and there has already been extensive recent consideration of the matter. The Commission will therefore deviate from its typical practices, and will not be releasing an issues paper or draft report. In lieu of these, this discussion paper aims to highlight key issues and preliminary views, drawing on existing research and evidence, to assist those intending to participate in the inquiry through the hearings and/or public submissions.

While submissions are welcome at any time, they should be lodged by no later than 30 August 2017 to ensure fullest consideration by the Commission. Public hearings will be held in Sydney on 22 August 2017 and in Melbourne on 24 August 2017. The Commission is seeking evidence-heavy submissions and comment related to the issues raised in this paper. Sections 3 and 5 below outline specific issues on which views and evidence are sought.

In approaching the inquiry, the Commission recognises that the principle of tax neutrality was supported by most participants in the Senate inquiry; and that the extension of GST to low value imported goods was broadly supported in the Parliament, with new legislation imposing the extension to take effect from 1 July 2018. This means the inquiry is, to a substantial degree, examining a fait accompli.

Accordingly, the Commission sees the main purpose for this inquiry as being to check that the legislated model is the best means to extend the GST to low value imported goods, and to identify any practical improvements to support effective implementation.

In assessing different collection models and potential improvements, the Commission will draw on established policy principles in relation to taxation and economic efficiency, including those set out by the OECD (2015) and in earlier work by the Commission (2011). The inquiry will give particular attention to the feasibility of different approaches and their likely impacts on: tax neutrality between domestic and foreign suppliers; GST revenues; and administrative and compliance costs and burdens. Consideration will also be given to the impact of any delays and disruptions for consumers, and effects on Australian businesses including small businesses in the retail sector.

The Commission is conscious, too, that some parties who will incur costs as a consequence of the new legislation may seek to put forward variations to it. The Commission will consider these, but notes that it is not a forum for negotiation.

2 The online goods importation system and GST collection models

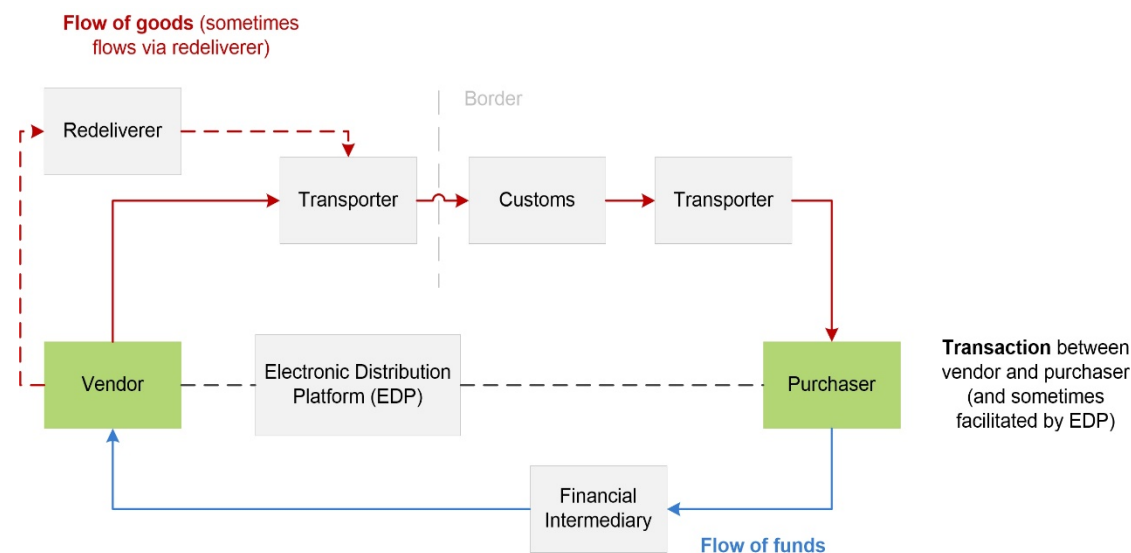
The supply chain for online sales of low value physical goods differs significantly from the traditional model of importing, warehousing and then retailing goods.

The entities covered in the online supply chain can include:

- the vendor of the goods
- an electronic delivery platform (EDP) or ‘online marketplace’, such as Amazon or eBay
- an intermediary for making the secure payment to a vendor abroad (traditional financial institutions or relatively new payment intermediaries such as PayPal)
- transporters, including those in the country of origin and domestic transporters making the final delivery (postal operators such as Australia Post, and express carriers such as DHL)
- ‘redeliverers’, that take delivery of goods from vendors and assist purchasers to bring them into Australia
- the purchaser.

Figure 1 depicts the process.

Figure 1 **Simplified representation of supply chain for online sales of imported goods**



The OECD (2015) has identified four broad collection models that are distinguished by the party liable to account for and collect GST. The broad models are:

- *‘traditional’ or ‘border’ collection model* — the model currently used in Australia to collect GST and customs duties on imports of goods valued above the LVT of \$1000 (details of Australia’s system are set out in box 2). Customs authorities assess the value of the imported goods and hold them until the appropriate GST payment is made by the recipient (also known as the ‘ransom’ model).
- *vendor collection model* —the obligation to collect and remit the GST is placed on the non-resident vendor, who is required to register for GST in the destination jurisdiction.
- *intermediary collection model* — this umbrella term describes models where the obligation to collect and remit GST is placed on financial intermediaries, EDPs or transporters (including redeliverers).
- *purchaser collection model* — the domestic purchaser is required to self-assess and remit GST on purchases of low value imported goods.

In practice, there are myriad ways collection systems could be configured, with GST assessment and GST collection potentially happening at different (and potentially multiple) points in the supply chain, and involving multiple parties. Indeed, proposals for collection systems often draw on different elements of the four broad models listed above.

The model legislated in Australia could be described as a hybrid vendor/intermediary model under the OECD taxonomy. Depending on the supply chain for the good in question, the obligation is placed on the vendor, the EDP, or the redeliverer (box 2).

Australia's arrangements for collecting GST on imported goods

Current arrangements for higher value goods

GST is currently levied on importations of goods only where their value exceeds the low value threshold (LVT) of \$1000 (except for tobacco and alcohol products). The process varies between the air cargo and international mail streams.

International mail is transported with a paper declaration affixed to the exterior of each article that includes details of the sender, the recipient, and a description and the value of the goods. The Department of Immigration and Border Protection (DIBP) manually assesses parcels for illicit products and security matters as well as tax liabilities. If the value of a parcel exceeds the LVT, the DIBP refers the item to Australia Post which sends the addressee a First Notice advising them of the need to complete an Import Declaration (Australian Customs and Border Protection 2011a). On receipt of this and before releasing the parcel, the DIBP sends the addressee a notice to pay duties, GST, any other taxes and charges and a cost recovery charge of \$90 if the Declaration is submitted in paper form or \$50 if it is submitted electronically (DIBP 2015).

The process for air cargo — mostly transported by the major express carrier businesses DHL, TNT, FedEx and UPS — is more efficient. The carriers typically collect sufficient information when the parcel is lodged and employ customs brokers to identify the correct tariff classification and lodge an Import Declaration electronically (PC 2011), which attracts a cost recovery charge of \$50 (DIBP 2015). This charge and any outstanding GST or other duties are collected from the addressee prior to delivery of the parcel.

The legislated 'expanded vendor' model for low value goods

Under the legislated amendments that are to take effect in July 2018, the current 'border model' arrangements for collecting GST on imports above the LVT will be retained.

However, imports of physical goods with a value of \$1000 or less (except tobacco and alcohol products) will be subject to a new and separate regime (Morrison 2017b):

- The legislated model is an expanded vendor collection model. The legislated model requires vendors, as well as electronic distribution platforms (EDPs) and redelivers, to register with the ATO for a GST registration number and then collect and remit GST on low value imported goods (of \$1000 or less).
- GST will be collected on transactions with consumers only. Australian businesses registered for GST can provide their Australian Business Number (ABN) and inform the supplier that they are registered to avoid being charged GST.
- Domestic GST exemptions — for example, some medical supplies are GST-free — will generally also apply to imports (ATO 2017b).
- Only overseas suppliers with consumer sales to Australia of \$75 000 per year or more are required to collect and remit GST under the legislated 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.

3 Impacts on Australian consumers and businesses

Consumers will likely face higher prices from the application of GST to low value imported goods (although some of the burden may be absorbed by others in the supply chain, depending on the characteristics of the relevant markets). Those collection models that yield the most tax revenue and/or have the largest compliance costs should have the largest impact on prices to consumers. It is also possible that the prices charged by some vendors will rise even though they are not required to remit GST on their products. Under some models, consumers could also face ‘costs’ through delivery delays and the inconvenience of administrative and payments processes.

INFORMATION REQUEST

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

- *To what extent would the different alternatives entail higher prices for consumers and/or additional processes or delays to purchases they make?*
- *Would these effects alter consumer shopping patterns and preferences?*
 - *how sensitive are consumers to prices, and to potential delivery delays and administrative processes, when shopping online?*
 - *to what extent would consumers switch activity to bricks-and-mortar outlets or domestic online vendors, or between different types of online foreign suppliers?*
- *How would these changes affect consumer welfare?*

For Australian retailers competing against foreign suppliers, moves towards greater tax neutrality will offer a relative cost advantage. GST collection models that maximise the tax take and/or impose the highest compliance costs on foreign suppliers would be expected to be most attractive to a domestic retail business seeking an advantage.

However, public policy is generally not desirably used in this manner, particularly not to impose the most excessive compliance cost, which could be characterised as a non-tariff barrier to trade.

Bricks-and-mortar retailers can offer a different service than online retailers, and the price differential between domestic retailers and online overseas retailers is often far greater than the 10 per cent GST differential. Moreover, the Commission’s 2011 inquiry found that other factors are likely to be far more important for the performance of local retailing than the GST exemption on low value imports.

This may mean that neither the legislated model nor alternative collection models would have an impact on health of domestic retailing as a whole. In retail niches where online sales are disproportionately large, however, the simple deterrent of new compliance and system costs needed to serve the Australian market may significantly alter competitive conditions, against consumer interests.

INFORMATION REQUEST

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

- To what extent would imposing GST on online purchases from overseas have a material effect on the competitiveness of domestic retailers?
 - which parts of retailing would be most affected?
 - Would there be effects on other Australian businesses?
-

4 A high-level survey of possible collection models

The terms of reference require assessments of the effectiveness of the legislated measures and the suitability of alternative collection models.

Given the background to the inquiry and the limited time available, the Commission intends to narrow the range of alternatives it assesses in detail.

To this end, the Commission has undertaken an initial, high-level, examination of several models. These include two specific models canvassed in recent Australian reviews — an extension of the current Australian border model, and the hybrid model put forward by the Low Value Parcel Processing Taskforce — and the other broad classes of collection model identified by the OECD.

Taking into account the considerable body of previous work by the OECD, the Commission and the Parcel Processing Taskforce, and information presented in the recent Senate inquiry, the Commission's view is that:

- only hybrid or multilayered models such as that proposed by the Parcel Processing Taskforce are potentially suitable alternatives to the legislated model.
- 'purer' models, such as the border, purchaser, financial intermediary and transporter models, all have significant limitations as stand-alone models.
- hybrid or multilayered models that *rely* on purchasers or financial intermediaries for GST collection are also unlikely to be effective, while those that result in the need to process and store a significant number of items at the border are unlikely to be efficient.

Further detail on alternative models and their key features as they relate to suitability in an Australian context are discussed below.

Unless compelling evidence favouring other models or approaches is forthcoming in submissions and/or at hearings, the Commission intends to focus in its final report on the model proposed by the Parcel Processing Taskforce, together with the legislated model, and any workable proposals to improve these models.

The legislated ‘expanded vendor’ model

The approach legislated by the Australian parliament is a hybrid model covering vendors, electronic distribution platforms and redeliverers.

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 additional government revenue, while entailing a relatively low cost (Hockey 2015; Morrison 2017a). For example, in contrast to the border model (see below), this model entails much lower administrative costs for government and avoids potential delays and disruptions to goods delivery for consumers.

A number of participants to the Senate inquiry supported the legislated model although several advocated changes or additions to improve its effectiveness. These participants included domestic bricks-and-mortar retailers, as represented by the Australian Booksellers Association, Australian Retailers Association and the Australian Sporting Goods Association, which stand to benefit the most from applying GST on low value imports (ARA 2017; ASGA 2017; Australian Booksellers Association 2017).

Several other participants, while supporting the aspirations of the legislation, were critical of the legislated model. For example, Amazon (2017) argued that the legislated model will be ineffective because of low compliance and limited enforceability. It contended that the Parcel Processing Taskforce’s hybrid model would be a better alternative, as it would increase the share of low value goods on which GST is collected. Amazon and other overseas vendors would also benefit from lower compliance costs under the Taskforce’s model.

Some compliance, revenue and cost estimates

It is difficult to precisely quantify the impacts of the legislated model ahead of its implementation. The model has no direct overseas precedent, and the impacts will ultimately depend on the commercial and behavioural responses of consumers and across the supply chain.

With these caveats in mind, Treasury estimated the legislated model would collect around \$300 million in the first three years of its implementation¹ (Treasury 2016, p. 19), with the level of participation and compliance by overseas vendors expected to steadily increase over time. Treasury estimated the compliance rate to peak around six years after implementation at about 54 per cent (by value of transactions) (Treasury 2017, p. 3).² Treasury’s assumed

¹ The revenue and cost estimates by the Treasury and the Centre for International Economics (see below) were for the period 2017-18 to 2019-20. The model’s implementation has since been delayed by one year to July 2018.

² Treasury signalled that the compliance rates under the legislated model could be higher than the estimates suggest as they do not, for example, adjust for businesses that are not required to be registered under the model and GST exempt goods (Treasury 2017).

rate of compliance was contested as too optimistic by CPA Australia (Drum 2017) and the Tax Institute (Deutsch 2017).

The Australian Government has little jurisdiction to enforce its tax laws in other countries, so the model relies on overseas vendors voluntarily complying. Some may do so because of ‘corporate social responsibility’ or potential reputational damage if they are ‘named and shamed’, but others may not because of the costs to them and the potential erosion of competitiveness. The ability of popular internet-based businesses to develop user campaigns against cost burdens that will ultimately be borne by consumers should also not be ignored, when assessing likely compliance. Airbnb and Uber have both demonstrated the power of consumers using social media to force regulators to debate and negotiate.

Because of the essentially voluntary nature of compliance, the Low Value Parcel Processing Taskforce (2012, p. 141) judged that a vendor model, in general, is not sufficient as a stand-alone reform. The rate of compliance achieved is a key factor in the overall effectiveness of the model.

The design of the model means that it should create limited additional costs for the government, largely through the Australian Taxation Office. The 2016-17 Budget provided \$13.1 million for the four years to 2019-20 (ATO 2017a). The funding relates to implementation, compliance and enforcement of the model (and includes additional costs incurred prior to implementation).

However, transporters, overseas vendors and EDPs will incur compliance costs under the model, which some have claimed would be significant (Alibaba, eBay and Etsy 2017; CAPEC 2017). Using rough assumptions based on Australian businesses’ experiences relating to collecting and remitting GST, the Centre for International Economics estimated compliance costs on vendors to be of the order of 0.8 per cent of the value of total transactions liable for GST (which amounted to \$44 million over the first three years of implementation on transactions handled by CAPEC members) (CIE 2016, pp. 33–36, 50). However, the CIE noted that ‘foreign firms would likely face significantly greater costs in becoming familiar with taxation practices’ (CIE 2016, p. 42). An important question for the inquiry is how significant these would be.

A further issue for assessing the impacts of the model is the extent to which these compliance costs will be borne by vendors and others, or passed onto Australian consumers in higher prices for imported goods, or whether in some circumstances vendors or EDPs might even respond by ceasing to supply the Australian market.

The Commission is seeking information and evidence on these and other matters to help it gauge the likely effects of the legislated model and to identify any possible improvements. (Detailed questions for participants are set out in section 5).

The border model

The border collection model is currently used in Australia to collect GST (and customs duties) on imports of goods valued above the LVT. It would be possible to apply this model to low value imported goods by lowering the LVT for GST purposes (either to zero or to an amount less than \$1000).

Use of the existing border model for low value imports could be expected to generate very high rates of compliance, as GST liabilities would be assessed by DIBP officials at the border and the goods not released until the GST is remitted. While this approach leaves open some scope for non-compliance by underreporting the value of parcels or splitting consignments across parcels (particularly if a LVT significantly above \$0 was chosen), an enhanced compliance campaign undertaken by Customs and Border Protection (now part of the DIBP) in relation to the LVT in early 2011 uncovered very low rates of non-compliance.³

In its 2011 assessment, the Commission found that applying the model to low value imported goods could generate significant GST revenue and promote tax neutrality, but would entail disproportionately high administrative and compliance costs and entail delays and disruptions to goods delivery (box 3).

Likewise, the OECD (2015, p. 206) found that the border collection model (which it terms the ‘traditional model’) is generally ‘[not] an efficient model for collecting the [GST] on imports of low value goods’.

The inefficiency of the border model is primarily due to the historical legacy systems used in the processing of international mail, which are predominately paper-based and labour intensive. This contrasts with the air cargo stream where the availability of electronic pre-arrival data can allow advance payment of duties and taxes and the immediate clearance of goods on arrival. The OECD (2015) considered that the efficiency of the border collection model may improve as electronic pre-arrival data and tax assessment and payment systems are implemented worldwide in the international mail stream. However, the Commission understands that it will still be many years before this becomes widespread.

Thus, while the volume of low value packages has grown since the 2011 inquiry, the Commission expects that the broad thrust of that inquiry’s findings on extending the border model to collect GST on low value imported goods remain relevant. An increase in the volume of low value imported goods since 2011 would imply greater inefficiencies due to the non-neutral tax environment, but it would also imply a corresponding increase in administrative and compliance costs if the LVT were to be lowered or removed. And in 2011, those costs clearly outweighed the potential revenues.

³ For the general population, these rates were 0.1 per cent in international mail and 2 per cent in cargo self-assessed clearance. In ‘high risk’ areas, rates were 3.2 per cent in international mail and 9 per cent in cargo self-assessed clearance (Australian Customs and Border Protection 2011b).

Based on a high-level examination of existing evidence, the Commission's view is that extending the border collection model to low value goods would be unlikely to yield net benefits to the Australian community. While it would likely generate compliance rates superior to the legislated model (and hence collect more tax revenue), this would come at significant administration and compliance costs. Although the model was seen as a 'live option' in the past and continues to have some support, no major stakeholder advocated its use as a stand-alone approach for low value imports at the recent Senate inquiry. The Commission does not view it as suitable alternative to the legislated model.

Box 3 The Commission's 2011 analysis of lowering the LVT

The Commission considered the options of lowering or abolishing the LVT during its 2011 inquiry (PC 2011).

The inquiry found that the bulk of direct consumer importations of good under the LVT of \$1000 were of very low value goods: for example, an estimated 73 per cent of international mail parcels containing goods below the LVT were in fact valued at \$100 or less (for which the GST, where it applicable, would have been no more than \$10 per item).⁴

Based on annual volumes of parcels, the Commission found that abolishing the LVT 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. It would lead to delays and inconvenience for consumers and to situations where consumers refuse to pay GST — imposing costs that Australia Post may have to bear.

The Commission's economic modelling found that:

- even under favourable assumptions the additional administrative and compliance costs that arise from reducing the LVT would outweigh potential gains from removing the non-neutral treatment of imported goods
- the cost of raising the additional revenue would be high compared with the average cost of collecting GST and other reasonably cost-effective taxes, unless collection costs are assumed to be at levels far below true collection costs under the border model.

The Commission concluded that 'any consideration of a significantly reduced threshold would necessitate a radically redesigned and highly efficient revenue collection system' (PC 2011, p. 202).

Small changes to the LVT were also not recommended, on the grounds that they would impose additional collection costs without making significant improvements to tax neutrality. For example, the Commission noted that reducing the LVT to \$900 would triple the number of parcels to be processed, but would still allow over 99 per cent of parcels to pass with no GST or duty collected.

Source: PC (2011).

⁴ The same analysis of a sample of international mail parcels estimated that 87 per cent of the items were valued at \$200 or less, and 97 per cent were valued at \$500 or less (PC 2011). Current and comparable data on international mail is not available, but the Commission considers it likely that the broad pattern observed by in 2011 continues today. In relation to parcels delivered by other transports, a sample of low value consignments from June 2015 handled by large express carriers showed that 67 per cent were valued at \$200 or less, and 87 per cent were valued at \$500 or less (CIE 2016).

Other ‘pure’ approaches

The Commission sees the other ‘pure’ models listed earlier as also being unsuitable to implement as stand-alone approaches. Problems would arise, too, if they were included as an element of a hybrid or multilayered model, but with significant reliance placed on them.

The transporter intermediary model

A ‘pure’ transporter model would involve transporters (Australia Post and express carriers) taking responsibility for assessing the GST liabilities (based on information supplied by the vendor), collecting the liabilities from the consumer and remitting them to the ATO.

For the air cargo stream, a transporter model could provide an efficient and effective solution, if combined with sufficiently simple compliance regimes and fast-track processing. For express carriers, electronic data collection and transmission systems are often already in place and GST collection and remittance to the tax authorities is also already common practice.

However, as noted above, the international mail stream does not have the appropriate systems in place to manage the efficient assessment and collection of GST on importation of low value goods.

The financial intermediary model

Under this model, financial intermediaries such as banks, credit card companies or entities such as PayPal would be required to assume the liability for remitting the GST on low value imports from online sales based on information supplied by the vendor. Financial intermediaries would be expected to reflect the GST in their charges for such transactions.

However, at present, financial intermediaries are not well placed to play a role in the collection of GST on imports of low value goods. They do not collect the relevant information for the assessment and payment of the GST and do not have systems to support the remittance of the tax in the jurisdictions of importation.

The Low Value Parcel Processing Taskforce (2012) considered that although this option may have some prospects in the future, it is not viable in the short to medium term due to lack of the requisite information and systems.

The purchaser model

A model relying on the purchaser to self-assess and pay the GST on imports of low value goods is very difficult to monitor, much less enforce. It is therefore not likely to provide a sufficiently robust solution for the collection of GST on the imports of low value goods.

The Parcel Processing Taskforce's hybrid model

The Low Value Parcel Processing Taskforce (2012) put forward a hybrid border/transporter model, whereby customs authorities are responsible for determining the GST liability due on low value parcels, but the goods are then released to the transporter who is responsible for collecting and remitting the GST. To complement this model, the Taskforce also recommended an optional vendor collection model applying to trusted offshore suppliers, optional pre-payment of GST liabilities by the purchaser, a simplified GST assessment model and a suite of process improvements (especially for the international mail stream).

The Taskforce did not formally indicate whether, and to what extent, the LVT for GST collection should be lowered if its recommendations were to be taken, up as this was outside its terms of reference. However, it noted that ‘... some change [to the LVT] could be reasonably assumed to be a consequence of the reforms outlined, if adopted’ (LVPPT 2012, p. 14).

The Taskforce's model centres on a more streamlined and automated version of the border model but with transporters ultimately responsible for collecting and remitting the GST. As with the border model, Customs and Border Protection (now part of the DIBP) is responsible for assessing GST liabilities as goods enter Australia, but this is enhanced by electronic pre-arrival data (provided by the transporter) where it is available. Following assessment, the transporter is permitted to remove the goods and manage the further delivery and collection of any tax to be paid by the addressee, which is then periodically remitted to the DIBP. The principle benefit of this approach over the border model is that it would reduce storage requirements at the border and improve delivery times. The other aspects of the Taskforce's model complement this central border/transporter hybrid, including provision of a ‘trusted vendor’ option (box 4).

Box 4 **Complementary GST collection models recommended by the Parcel Processing Taskforce**

The Taskforce suggested two complementary GST collection methods for low value imported goods.

An optional vendor model was recommended for ‘appropriately regulated’ overseas suppliers. The Taskforce did not consider a vendor model to be a sufficient stand-alone mechanism due to its reliance on voluntary compliance. However, it was considered appropriate as part of a multilayered model where non-compliance leads to collection via the border/transporter model. In addition, the Taskforce noted that this dynamic may create incentives for vendor compliance in order to improve the experience of their customers.

The Taskforce also recommended that systems be put in place to enable the purchaser to self-assess and pre-pay GST on goods they have purchased (where payment was not already made by the vendor). This would offer benefits to consumers in the form of faster delivery and to transporters in the form of lowered storage requirements.

Source: Low Value Parcel Processing Taskforce (2012).

Several participants in the Senate inquiry supported the Parcel Processing Taskforce’s model. Amazon, eBay, Alibaba and Etsy argued that it would offer better compliance than the legislated model (Alibaba, eBay and Etsy 2017; Amazon 2017). Senator Xenophon considered that the Taskforce’s model is not without its critics but is more likely to achieve tax neutrality than the legislated model. And Labor Senators called on the Australian Government to justify why it had moved away from the Taskforce’s model (SELC 2017).

Other participants expressed concerns with the Taskforce’s model. Australia Post submitted that it would incur compliance costs of approximately \$900 million per annum if required to collect GST on low value imported goods (Australia Post 2017). The Conference of Asia Pacific Express Carriers (CAPEC — representing DHL, TNT, UPS and FedEx) also raised concerns about high compliance costs (Garner 2017). Meanwhile, CHOICE 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).

Compliance rates

Regardless of whether only the central components of the Taskforce’s model were to be implemented or whether the optional components (such as the trusted vendor and optional purchaser pre-payment models) were incorporated, the model would likely feature high rates of compliance and revenue collection, comparable to those achievable with the border model and superior to those of the legislated model.

As with the border model, the assessment of the GST liability is made by Customs and Border Protection officials at the border under the Taskforce’s model, implying similar compliance rates. The Taskforce also recommended that additional funding be allocated to allow Customs and Border Protection to undertake extra compliance and enforcement activities.

Were the optional ‘trusted vendor’ scheme to be implemented, it would likely produce compliance rates similar to the core border/transporter model for the transactions covered, provided the scheme was effective in selecting only *trustworthy* vendors.

Compliance costs

The Taskforce estimated indicative per-parcel collection costs for its model under various settings for the LVT and over the period 2014-2018. For the international mail stream, these ranged from \$12 per parcel for a \$0 LVT to \$17-20 per parcel for a \$500 LVT, with the variation due to economies of scale in processing. For the cargo stream, costs were estimated at \$15-30 per parcel regardless of the LVT (as no economies of scale were assumed).

There is a high degree of uncertainty attached to these estimates. The Taskforce stated that the level of confidence for the international mail stream estimates is ‘at best in the plus or minus 50 per cent range’ (2012, p. 187) and that the assessment of costs in the cargo environment was less comprehensive.

Australia Post has claimed that it would incur costs of approximately \$900 million per annum if it were required to collect GST on low value imported goods (Australia Post 2017, p. 2).⁵ This contrasts with the assessment of the Taskforce, which (based on the per-parcel cost estimates above) estimated that ‘aggregate collection costs just for the international mail environment at the zero threshold level would be around \$450 million in 2014’ (LVPPT 2012, p. 188). Nevertheless, both figures exceed the Taskforce’s estimate of revenue from the international mail stream with a zero LVT (\$272 million in 2014).

Other possible approaches?

At the Senate inquiry, the Australian Sporting Goods Association and the Australian Retailers Association suggested that compliance under the legislated model would be improved if it were adopted as a part of a multilayered approach in concert with the border model (ARA 2017; ASGA 2017). If an offshore vendor opted not to comply, goods imported from it would have GST collected via the border model. The Associations argued that this approach would impose lower administrative costs than the border model because parcels from vendors that collect GST would not need to be assessed at the border.

This proposition has some similarities with the multilayered model put forward by the Parcel Processing Taskforce, although it supplants the border/transporter hybrid of the Taskforce’s model with the border model. A concern is that approaches of this type could create significant costs and disruption to the extent that they necessitate the processing and storage of a significant number of items at the border.

5 Information sought on the impacts of the main models

Based on the above analysis, at this stage the Commission intends to focus in its final report on the model proposed by the Parcel Processing Taskforce, together with the legislated model, and any workable proposals to improve these models that may be offered in submissions.

In doing so, the Commission will draw on established policy principles in relation to taxation and economic efficiency. It will give particular attention to the feasibility of the different approaches and their likely impacts on: tax neutrality between domestic and foreign suppliers; GST revenues; administrative and compliance costs and burdens; and the resultant impacts on Australian consumers and businesses.

The Commission invites participants to comment on any of these matters in submissions to this inquiry and/or at public hearings.

⁵ It is unclear whether Australia Post was referring to the model put forward by the Parcel Processing Taskforce or another model. This cost estimate is supplied in relation to the ‘‘Transporter’’ model which [Australia Post] understands has been promoted by a number of large international eCommerce platform operators’ (Australia Post 2017, p. 1). This is likely a reference to the Taskforce’s model, which was supported by several EDPs during the Senate inquiry (Alibaba, eBay and Etsy 2017).

In this section, the Commission sets out specific matters on which it is seeking information to assist its analysis. Inquiry participants need not address all matters raised below, and are welcome to address others they consider pertinent to the Commission's assessment. Where participants have provided views and evidence on some or all of the following matters to the recent Senate inquiry or in other forums, they should feel free to cross-refer to that material (or 'cut and paste' it, updated as necessary) in their submissions to the Commission.

The legislated model

Compliance rates

The legislated model's effectiveness depends critically on the rate of compliance by overseas vendors and EDPs.

Treasury's revenue estimates rest on an expectation that compliance will track to an expected peak of 54 per cent (by value of transactions) (Treasury 2017, p. 4). CPA Australia and the Tax Institute have suggested these assumptions are optimistic (Deutsch 2017; Drum 2017).

Factors that might support a relatively high rate of compliance include the desire for large overseas vendors and EDPs to avoid potential reputational risk or damage (as suggested by the ATO (Dyce 2017)) coupled with the somewhat concentrated market for low value imported goods (CIE 2016). In addition, the ATO intends to work with overseas vendors and EDPs to make them aware of their obligations which could lift compliance (Purvis-Smith 2017). However, a vendor's decision to comply depends on numerous factors and the effectiveness of these actions is uncertain.

INFORMATION REQUEST

The Commission seeks views and evidence on compliance rates under the legislated model, including:

- *What level of compliance can be expected?*
 - *are Treasury's estimates of compliance rates realistic?*
 - *what lessons can be drawn from countries' experiences implementing a vendor model for digital goods?*
 - *To what extent will overseas vendors and EDPs voluntarily comply?*
 - *what factors will contribute to rates of compliance among them?*
 - *how will complying affect their competitiveness with other vendors in the market?*
 - *how effective will the ATO enforcement activities be?*
 - *will some vendors 'over-comply', for example by ignoring standard exemptions to GST or purchases by registered businesses?*
-

Compliance rates might be improved by changing aspects of the legislated model. For example, vendors and EDPs that do not register to voluntarily collect and remit GST, or that are not deemed ‘trusted’, might be penalised in some way, increasing their incentive to comply (although simply registering under the current model does not ensure full compliance).

INFORMATION REQUEST

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

Compliance burdens

Overseas suppliers’ decisions to either pass on compliance costs through higher prices or pull out of the market will affect Australian consumers and competing Australian businesses.

Vendors, EDPs and redeliverers’ compliance costs can relate to collecting information from purchasers about whether they are customers or businesses, and details about whether goods are liable for GST. Costs would also be incurred in developing systems to continually assess and collect the GST, and to remit it to the ATO.

The Centre for International Economics conservatively estimated compliance costs on vendors to be of the order of 0.8 per cent of the value of total transactions liable for GST, but noted that the actual costs will likely be higher (CIE 2016, pp. 33–36).

Some participants such as CHOICE (Turner 2017) and eBay (2017) told the Senate inquiry that overseas retailers and EDPs may stop selling to the Australian market instead of complying with the legislated model as they expect the costs to be significant. However, many large retailers and EDPs are already likely to have systems in place to account for the different taxes across the United States, in Europe and/or in regard to digital sales to the Australian market. In addition, other countries are looking to implement a vendor model, which suggests that developing systems to collect and remit GST or value added taxes is likely to become an inevitable cost of doing business.

While small overseas vendors with sales in Australia below \$75 000 are not liable for GST, those that operate via EDPs will be, because large EDPs are liable for remitting GST on all taxable consumer sales conducted through their platforms, including sales by small vendors. This may provide incentives for small overseas vendors to cease selling through EDPs, particularly if they have their own online sales channel, although at some risk of reduced custom.

Even though the model does not directly impose requirements on transporters, transporters will incur some compliance costs. Under the legislation, suppliers must provide customs with their GST registration number (where applicable, the ABNs of customers that are

businesses) and that GST has been charged. Practically, as transporters deliver the good from the supplier to the purchaser, the transporter will provide this information (along with other data) to the DIBP, which later transmits it to the ATO. Transporters will incur some costs from adjusting systems to collect and transmit this information. CAPEC has argued that it is more efficient for information to flow directly from the vendor to the ATO (CAPEC 2017).

INFORMATION REQUEST

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

- *What level of compliance costs can be expected under the model?*
 - *are the CIE's estimates of compliance costs reasonable as a baseline?*
 - *how costly would it be for foreign vendors and EDPs to establish or reconfigure systems to enable the assessment and remittance of GST?*
 - *how much of a burden is collecting vendors' GST registration numbers for transporters?*
 - *Are there changes to the legislated model, or other actions that government or others could take, that would reduce compliance costs?*
 - *In what ways and to what extent will compliance costs on foreign vendors, EDPs or redeliverers impact the supply of foreign goods to the Australian market?*
 - *to what extent will such costs be translated into higher prices for imported goods?*
 - *how probable is it that overseas vendors (including small vendors), EDPs or redeliverers will cease servicing the Australian market?*
 - *how will other countries' progress towards implementing a vendor-based model in their jurisdictions affect overseas vendors' and EDPs' decisions in the Australian market?*
-

Non-tariff barriers to trade

The Commission also invites comment on how adoption of the legislated model (or alternatives) might affect barriers on trade. For example, one issue is whether the existence of a tax law that is opaque and remote from many overseas vendors is likely to be employed as a non-tariff barrier for Australian firms. Given the history of this tax extension, if tax revenue estimates disappoint, Australian retailers may have incentives to seek further action aimed at imposing costs on foreign suppliers or even forcing some out of the Australian market. Another issue is whether Australia's adoption of a particular model would lend support for the more widespread adoption of similar models abroad, with implications for Australian exporters.

The Parcel Processing Taskforce's model

Given that the Parcel Processing Taskforce's model was outlined in 2012, the Commission is interested in participants' views on developments since then that might impact the model's effectiveness or suitability today. The Commission is also interested in any workable modifications that could be made to the model that would enhance its cost-effectiveness.

INFORMATION REQUEST

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.

- *How have international mail processing techniques evolved in recent years, and how can they be expected to evolve in the near future?*
- *If parcel processing has improved (or will improve), how significant are the (likely) per-parcel cost reductions?*
- *To what extent will (have) these changes enhance(d) the viability of the Taskforce's model?*

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?*

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

- *What compliance rates would be likely under the Taskforce's model?*
- *Are there avenues for non-compliance under the Taskforce's model and, if so, how could these be narrowed or closed?*
- *How would the compliance costs be shared between the Australian Government, transporters, consumers and other parties under the Taskforce's model?*

The Taskforce's model requires that transporters take responsibility for collecting GST from consumers on the low value imported goods they deliver.

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

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

- *Do these criteria appropriately balance compliance risks and border compliance costs with the desire to encourage use of the optional vendor model?*

Attachment A: How to make a submission

How to prepare a submission

Submissions may range from a short letter outlining your views on a particular topic to a much more substantial document covering a range of issues. Where possible, you should provide evidence, such as relevant data and documentation, to support your views.

Generally

- Each submission, except for any attachment supplied in confidence, will be published on the Commission's website shortly after receipt, and will remain there indefinitely as a public document.
- The Commission reserves the right to not publish material on its website that is offensive, potentially defamatory, or clearly out of scope for the inquiry or study in question.

Copyright

- Copyright in submissions sent to the Commission resides with the author(s), not with the Commission.
- Do not send us material for which you are not the copyright owner — such as newspaper articles — you should just reference or link to this material in your submission.

In confidence material

- This is a public review and all submissions should be provided as public documents that can be placed on the Commission's website for others to read and comment on. However, information which is of a confidential nature or which is submitted in confidence can be treated as such by the Commission, provided the cause for such treatment is shown.
- The Commission may also request a non-confidential summary of the confidential material it is given, or the reasons why a summary cannot be provided.
- Material supplied in confidence should be clearly marked 'IN CONFIDENCE' and be in a separate attachment to non-confidential material.
- You are encouraged to contact the Commission for further information and advice before submitting such material.

Privacy

- For privacy reasons, all **personal** details (e.g. home and email address, signatures, phone, mobile and fax numbers) will be removed before they are published on the website. Please do not provide a these details unless necessary.
- You may wish to remain anonymous or use a pseudonym. Please note that, if you choose to remain anonymous or use a pseudonym, the Commission may place less weight on your submission.

Technical tips

- The Commission prefers to receive submissions as a Microsoft Word (.docx) files. PDF files are acceptable if produced from a Word document or similar text based software. You may wish to research the Internet on how to make your documents more accessible or for the more technical, follow advice from Web Content Accessibility Guidelines (WCAG) 2.0<<http://www.w3.org/TR/WCAG20/>>.
- Do not send password protected files.
- Track changes, editing marks, hidden text and internal links should be removed from submissions.
- To minimise linking problems, type the full web address (for example, <http://www.referred-website.com/folder/file-name.html>).

How to lodge a submission

Submissions should be lodged using the online form on the Commission's website. Submissions lodged by post should be accompanied by a submission cover sheet.

Online*	http://www.pc.gov.au/inquiries/current/collection-models
Post*	Collection Models for GST on Low Value Imported Goods Productivity Commission GPO Box 1428 Canberra City ACT 2601, Australia

* If you do not receive notification of receipt of your submission to the Commission, please contact the Administrative Officer.

Due date for submissions

Please send submissions to the Commission by 30 August 2017.

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