2 December 2016

Manager, Indirect Taxes and Not-for-Profit unit
Individuals and Indirect Tax Division
The Treasury
By email: lowvaluegoods@treasury.gov.au

To the Manager, Indirect Taxes and Not-for-Profit unit

Re: Applying GST to low value goods imported by consumers

CHOICE welcomes the opportunity to provide comment on the exposure draft and the explanatory memorandum of the Treasury Laws Amendment (2017 Measures No.1) Bill 2017: Low value imported goods (the Bill).

CHOICE does not oppose the intent of this Bill; we support initiatives to create a tax system that is fairer and less complex. However, we are very concerned that the Bill will not lead to fair or simple outcomes.

We maintain that tax measures should not be pursued unless there is a clear business case establishing that the measure would raise net revenue. Poorly designed measures risk reducing competition by restricting consumer access to goods while producing no measurable economic gain.

There is no evidence that the GST LVT measures will cost less to collect that they will raise

Currently, goods purchased through overseas websites that cost less than $1000 do not attract the GST. This legislation would see the GST low value threshold (LVT) lowered to $0 on imports of physical goods. Foreign companies with an Australian turnover of $75,000 or more will be required to register and charge the GST on the products they sell.

The Treasury has not released any modelling on the impact of the new rules on consumers, businesses or competitive pressure in retail markets. A number of previous reports have examined the implications of lowering or eliminating the LVT.[1] For example, the 2011 Productivity Commission report on the Australian retail industry and the 2012 Low Value Processing Taskforce

[1] See Board of Taxation (2010), *Review of the application of GST to cross-border transactions;* Centre for international economics (2011) *the GST threshold of low value products*; Productivity Commission (2011), *Economic structure and performance of the Australian retail industry*; Treasury (2012), *Low value parcel processing taskforce: final report.*

report. Both reports stated that no change to the GST rules should be made until the government could come up with an approach to processing imports costing under $1,000 without creating delivery delays or compliance and other costs to importers and consumers. The Government has not met the evidence threshold set out by the past, thorough analyses of the LVT. The Government needs to demonstrate what the implications of this measure will be, specifically, if it will raise more in revenue than it will produce in costs to government, businesses and consumers.

Enforcement costs remain unclear with high likelihood of unintended consequences

There needs to be clearer, public guidance about how the new LVT arrangements will be enforced to properly assess the costs of levying the tax. There is no mention in the Bill, explanatory memorandum or the questions and answers document that outline how the new GST LVT measures will be enforced.

CHOICE's understanding is that the Bill 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 ATO, are able to seek assistance from the telecommunications industry in order to uphold Australian laws. It is feasible that online businesses who do not voluntarily comply with new tax measures will have their website blocked. Australian consumers will then have less access to goods.

Alternatively, we expect some businesses will choose not to comply with new tax arrangements by ceasing to sell goods to Australian customers. Australians will face reduced access to goods, likely to some goods that are unavailable through retail outlets in Australia such as clothing for larger, smaller or more unique sizes or goods that are important to smaller communities across Australia.

The work hasn't been done to assess the consequences of this Bill. We believe it is highly likely that the Bill will lead to additional costs, beyond the 10% GST, for consumers, governments or to businesses involved in selling or transporting goods to Australia. The Bill should not proceed until the Federal Government has a better understanding of the impact of the measures on consumer access to goods and competitive pressure across the retail sector through modelling and assessment, preferably by a third party such as the Productivity Commission.

If modelling is not done, we recommend a three-year review of the Bill to assess the impact on access to goods, competition in key retail markets and collection costs.

For further information please contact CHOICE on eturner@choice.com.au

Yours sincerely,

Matt Levey

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