

The Board of Taxation
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17 September 2009

Dear Sir/Madam

Review of the low value importation threshold

We are writing this submission in response to the Board of Taxation's invitation to stakeholders to comment on the recent discussion paper regarding the 'Review of the Application of GST to Cross-Border Transactions' ("the Discussion Paper"). We write on behalf our client, Conference of Asia Pacific Express Carriers (Australia) Limited ("CAPEC"). In particular, through this letter we seek to provide feedback on Option 3.5 of the Discussion Paper – whether the low value threshold limit of \$1,000 for imported goods (also referred to as the formal entry threshold) should be reviewed.

Executive Summary

CAPEC submit that the current low value threshold is set at an appropriate level that ensures postal and non-postal items are treated the same and strikes an appropriate balance between revenue collection and administrative efficiency. In support of this, we note the following:

- This issue has previously been addressed by the Joint Committee for Public Accounts and Audit ("JCPAA") and Commonwealth Competitive Neutrality Complaints Office ("CCNCO"). These reviews were conducted in consultation with affected parties. Both enquiries found that the formal entry thresholds for postal and non-postal items should be aligned. In October 2005, the Government aligned the threshold at \$1,000.
- A reduction in the low value importation threshold will substantially increase the cost of low value imports. By formally entering a consignment, the following taxes and charges (or additional charges) will apply:
 - GST and customs duty (if applicable);

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- cost recovery charges imposed by The Australian Customs and Border Protection Service (“Customs”) and fees payable to Customs brokers for entering the goods. In many instances, for consignments under \$1,000 these fees and charges will be greater than the GST and customs duty (if any) collected; and
- Transport costs will increase as carriers must warehouse and manage the goods until the relevant tax, duty and customs charges are paid by the consignee.

CAPEC submit that this is clearly inefficient and will unnecessarily inhibit the importation of goods into Australia.

- The original formal entry threshold was set at \$250 in 1976. In real terms, this is equivalent to \$1,268¹. While CAPEC is not asking for the threshold to be increased, it is notable that the current value of \$1,000 is, in real terms, less than the amount originally prescribed in 1976.
- A reduction in low value importation threshold will substantially increase the cost of administration as Customs will be required process considerably more entries for little net revenue gain (particularly when low value imports by business will be subject to GST which will be returned to the business by way of an input tax credit).
- A reduction in the low value threshold will inhibit the flow of goods into the country, making the importation system considerably less efficient for little additional revenue.

CAPEC agrees with the observation of the CCNCO which stated that the threshold should strike an appropriate balance between revenue collection and risk management objectives and administrative efficiency. CAPEC submits that the current threshold strikes the right balance.

¹ Using the RBA inflation calculator

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Background

CAPEC is a non-profit organisation established for the purpose of representing the worlds leading integrated express delivery service companies, being, DHL, FedEx, TNT and UPS. CAPEC mission is to;

“Work closely with Governments and regulatory authorities in Australia to further the interests of the express industry and to facilitate trade expansion and economic growth in Australia.”

CAPEC has made previous submissions to Government in relation to the low value importation threshold (details of which are outlined in the History section of this submission). It is, therefore, entirely appropriate and consistent with CAPEC’s mission that it makes this submission in relation to a potential review of the low value importation thresholds.

Outline of Submission

In support of our submission, we set out the following:

- (a) History of this issue.
- (b) The Customs clearance process.
- (c) The low value threshold and the effect of inflation
- (d) Response to Q5.24 of the Discussion Paper.
- (e) Response to Q5.25 of the Discussion Paper.

(a) A brief history

The history to the setting of the current low value threshold for imported goods can be summarised as follows:

- Prior to 1986, the threshold at which imported goods must be formally entered for home consumption (and therefore be subject to customs duty and sales tax (at that time), if applicable) was either of the following amounts:

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- Where a consignment had a value more than A\$250²; or
- Where the combined duty and sales tax payable was more than \$50³.
- In 1986, the consignment value thresholds for the formal entry of postal items (those goods carried by Australia Post) was increased to \$1,000 while the threshold for and non-postal items (those carried by CAPEC members and others) remained at \$250. The tax payable limit of \$50 remained. However, an informal clearance process was introduced for goods subject to tax and duty (because the \$50 threshold was breached), but the consignment value was less than \$250 (for non-postal items) and \$1,000 (for postal items).
- The purpose of increasing the threshold for postal items in 1986 was to:
 - Assist small business users of the postal system;
 - Reduce delays in mail delivery; and
 - Reduce processing costs for Customs and Australia Post.⁴
- We understand that in 1986, competitive neutrality between Australia Post and CAPEC members was not an issue as there was minimal overlap of services at that time. However, this was not the case in the year 2000 when the CCNCO released its report "Customs Treatment of Australia Post, Investigation No 5".
- In its 2000 Report CCNCO recommended, among other things, that the formal screening thresholds for postal and non-postal items be aligned at level which strikes an appropriate balance between revenue collection and risk management objectives and administrative efficiency.
- The consignment values were not aligned to \$1,000 until October 2005. At the same time the Government removed the \$50 tax and duty threshold.

² This value was set in 1976

³ The \$50 duty and sales tax free limit was set at \$50 in 1991. From 1985 to 1991 it was \$20. This limit was removed with the introduction of the GST

⁴ Section 2.1 (page 4) of CCNCO - Customs Treatment of Australia Post, Investigation No 5 AusInfo, Canberra

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(b) The Customs Clearance Process

Prior to addressing the specific questions raised by the Board of Taxation in its Discussion Paper, the following matters in relation to customs clearance procedures are relevant in considering whether, and at what level, a low value importation threshold should be imposed:

- In relation to the importation of goods, Customs controls depend upon the type and value of the relevant goods. Some goods such as firearms and drugs are subject to controls, regardless of value. However, the majority of goods imported into Australia are only subject to value based requirements.
- Goods imported below a certain consignment value (currently, \$1,000) do not require formal entry and are screened free of charge. This threshold recognises the value below which the additional costs to transporters and Customs of formal entry procedures outweigh the higher revenue collection that would accompany those procedures⁵.
- For consignments valued at more than \$1,000, formal entry is required. The charge for formally entering goods are as follows:

<i>Item</i>	<i>Method of lodgement</i>	<i>Charge</i>
Formal entry	Electronic	\$40.20
	Manual	\$65.75

- For many importers, formal entry often requires the assistance of a Customs Broker. In its 2000 report, CCNCO stated that the average charge by Customs brokers for an importation was \$65 (including the Customs cost recovery charge). In real terms this charge would be at least \$83.44⁶.


⁵ Section 2.1 (page 4) of CCNCO - Customs Treatment of Australia Post, Investigation No 5 AusInfo, Canberra

⁶ Using the RBA inflation calculator

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(c) *The low value threshold and the effect of Inflation*

The table below illustrates how the low value importation threshold has reduced in real terms since its introduction in 1976.

	1976	1990	2005	2008
	\$2.00	\$11.95	\$18.95	24.95
(a) Import threshold	\$250.00	\$250.00	\$250.00	\$1,000

In 1976, it would have been possible to import 124 copies of the book "Revolutionary Road" and remained under the formal entry threshold. In 2009, it would be possible to import only 40 copies of the same book.

CAPEC is not suggesting that the current value of \$1,000 is inappropriate. Rather, CAPEC is suggesting that a further review of this threshold with a possible view to reducing it, is inappropriate. The above example illustrates, in historical terms at least, that the outcome of any review should be an increase in the threshold, not a decrease.

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Is the Importation threshold at an appropriate level? If not what should this be?

The purpose of a threshold

In 1998, the Joint Committee of Public Accounts and Audit (“JCPAA”), released its report “Internet Commerce – To buy or not to buy?”. In this report the JCPAA noted the following reasons for having a screen free limit (based on a low value threshold):

- Minimise delays in delivering mail and cargo;
- Reduce the cost to business of importing low value consignments;
- Determine a value below which it is uneconomic for Customs to collect tax and duty; and
- Facilitate international trade by minimising Customs intervention⁷.

We submit that the current threshold of \$1,000 is appropriate and consistent with the purpose of having a threshold. Broadly, we submit this on the basis of the points discussed below.

Previous reviews

The current low value importation threshold has been set following a lengthy series of reviews conducted by JCPAA and CCNCO. In each review it was found that the formal entry thresholds for postal and non-postal items should be aligned. These reviews were conducted in consultation with affected parties, including Customs, the ATO, CAPEC, various retail associations and the Customs Brokers and Forwarders Council of Australia (“CBFCA”).

The JCPAA recommended in 1998 that the commercial entry thresholds be harmonised for postal and non-postal articles at \$1,000. The CCNCO recommended in the year 2000 that the formal screening thresholds be aligned, but did not specify a value. However, the CCNCO did observe that the threshold should strike an appropriate balance between revenue collection, risk management and administrative efficiency.

⁷ Para 5.10 JCPAA report Internet Commerce – To buy or not to buy?

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In October 2005 the Government announced that the low value import threshold for non-postal articles would increase to \$1,000 and the \$50 tax and duty limit would be removed.

Up until October 2005, the \$250 screen free limit had been in place since 1976 for non-postal articles. Given the impact of inflation over the 29 year period from 1976 and the introduction of a GST to replace the wholesale sales tax system (that applied tax rates up to 32%), it is somewhat remarkable that this value was not increased at any stage for non-postal articles until October 2005.

CAPEC submits, having regard to the initial value set in 1976, that a value of \$1,000 for formal entry is entirely appropriate.

Consistency of thresholds

Currently goods brought into Australia by travellers are subject to a \$900 threshold before duties and GST is imposed. While this threshold is less than that applied to postal and cargo articles, it is not far short. Furthermore, travellers tend to import goods as part of their hand luggage for personal purposes. However, postal and cargo articles are imported for a mixture of business and private purposes. As GST is generally recoverable (as an input tax credit) if it is incurred in the course of an entity's business, but not so if it is incurred for a private purpose, it is notable that the tax free thresholds should be so close in value.

If the Government is comfortable with the \$900 threshold for travellers (this has been reviewed several times in the past), it would appear there is a sound case to increase the low value threshold for postal and cargo articles.

As previously stated, CAPEC believe the current low value importation threshold of \$1,000 is appropriate. CAPEC is not proposing that this value be reviewed at this stage. However, if a review was undertaken, there are very strong grounds for increasing the value..

The GST impact

It is also notable that the GST has been introduced since the JCPAA and the CCNCO enquiries were held. The GST is a fundamentally different tax from its predecessor, the wholesale sales tax. Unlike the

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wholesale sales tax system, the GST is not a tax on business; rather it is a tax on final private consumption.

A reduction in the low value importation threshold will require businesses to formally enter many more imports than is currently the case. This will substantially increase businesses costs yet produce no additional GST revenue as any GST collected will be paid back to the business by way of an input tax credit.

While CAPEC have not had the opportunity to analyse the nature and value of imports undertaken by businesses and consumers, it is likely that the value of imports made by private consumers would be substantially less than \$1,000. In other words, a moderate reduction in the low value threshold is likely to generate little net GST revenue for the Government as the additional imports subject to GST are likely to be made by businesses. The cost to business of formally entering such goods is addressed below.

The delay in delivering goods

Should the current threshold be reduced, the practical effect will be that a greater proportion of consignments will be formally cleared through customs. This will increase the delivery time for Australia Post and CAPEC members as they will have to prepare or arrange for the relevant documentation to be completed, wait while Customs process the information, liaise with Customs where necessary and collect the GST, customs duty and charges from the consignee.

Any reduction in the low value importation threshold will have a significant impact on the efficiency of moving goods into (and out of) Australia, will produce little revenue and substantially increase costs for businesses and ultimately consumers.

Cost to business

Customs clearance charges

Goods that are formally entered for home consumption are subject to customs clearance charges. We note that businesses will often engage a customs broker to facilitate the clearance of goods through the customs process. Should the threshold be decreased, customs broker and customs clearance charges

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are likely to represent a higher proportion of the total value of many consignments than the tax and duty collected by the Government. This is an undesirable outcome in terms of the efficiency of the taxation system and the international competitiveness of Australian businesses.

By way of example, if an \$800 consignment of duty free goods (the majority of goods entering Australia are free of customs duty) must be formally entered and the cost to engage a customs broker (including customs clearance charges) is \$85. The amount of GST payable is \$80. An \$800 acquisition will incur \$165 in taxes and charges. CAPEC submit that this is an inappropriate and inefficient outcome.

Additional Business Costs

If the low value importation threshold was reduced in any substantial way, there are a number of additional business costs that CAPEC members will incur. These costs would inevitably feed into prices to customers. Some of these additional costs include the following:

- updating internal processes, systems and procedures to accommodate any decrease in the threshold;
- staff training and development costs to educate staff as to the change in threshold, the effects this has on daily operations and the use of the new systems and procedures.
- The cost of handling, storing and processing imports for a significantly larger number of formally entered would be considerable. In some cases, goods formally entered will only be cleared by a CAPEC member after the consignee has paid any GST, duty and charges. If the consignee refuses, the goods will generally be returned to the sender. This is inefficient and costly.

Cost to Government

In addition to the number of consignments on which import GST and customs duty (if applicable) would be collected, the number of items being cleared through Customs would increase considerably. In order to administer a considerable increase in formal entries, Customs must inevitably incur additional costs. While these costs are passed back to those who enter goods, it is an unnecessary cost that should not be borne by business in particular.

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The current customs clearance charges of \$40.20 or \$65.75 per consignment should represent the cost of Customs processing a formal entry. This cost is a substantial proportion of the value of a small consignment.

While the GST may be recoverable for business customers, any charges imposed by Customs would be an absolute cost for both private and business customers.

Australia's geographical circumstances

Australia can be distinguished from other jurisdictions that apply a lower threshold. The current low value importation threshold appropriately reflects Australia's geographical isolation. Those countries that have very low thresholds have unique circumstances that necessitate (or drive) such thresholds. For example:

- Canada shares a border (and a free trade agreement) with a country (the USA) that does not have a GST or VAT system.
- The EU comprises 25 countries within a geographical area smaller than Australia, all members of which freely trade with each other and operate a VAT system that is a substantial part of the member countries revenue base.

Australia does not share these issues. Australia is geographically isolated. Most of our near neighbours with advanced GST systems (New Zealand and Singapore) operate relatively high low value thresholds. The incentives that apply in other jurisdictions to implement a lower threshold (and therefore formally capture more imports at the border) are not relevant in Australia's circumstances and should not be a factor that is considered when determining whether or not the current threshold is set at the appropriate level.

(d) Should there be a connection between low value import threshold for GST purposes and for customs duty purposes?

The current system based on the value of a consignment is considerably easier to manage both from a business and Customs administration perspective. The GST law is generally designed to complement the customs treatment of goods at the border. In particular, the GST law complements the customs law

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in relation to valuation, entry requirements and entry concessions (refer Division 42 of the A New Tax System (Goods and Services Tax) Act 1999).

To require importers (including transport companies) to manage a dual threshold system for GST and customs duty purposes would add considerable complexity to a system that is already complex.

We submit that from a practicality perspective, the connection between the low value threshold for GST and that for customs purposes should remain.

Conclusion

We submit that as a stakeholder of the current review, CAPEC and its member entities are in a position whereby they will be severely disadvantaged should the current low value import threshold be reduced. We further consider that it is not appropriate to conduct any further reviews into the threshold, unless such a review is undertaken with a view to increasing the threshold. We consider, for the reasons outlined above, that compelling arguments exist to support the threshold remaining at the current level.

* * * *

We trust the above adequately explains CAPEC's position with respect to the review of the low value threshold limit of \$1,000. Please feel free to contact me on (02) 8266 5229.

Yours sincerely



Denis McCarthy
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