

Appendix N - Summary of OECD publications in respect of GST/VAT on low value imports of goods

The OECD has been investigating mechanisms for the collection of GST / VAT on cross border supplies of goods and services in cases where the supplier is not located in the jurisdiction of consumption. The OECD has given priority to the development of a collection mechanism of GST / VAT on supplies of services and intangibles by foreign suppliers. As a result the guidance on the collection mechanism of low value imports of goods has not progressed beyond some general publications. The relevant OECD publications are summarised below.

Importantly, the OECD has not put forward concrete guidance on a collection mechanism for low value goods. In our view, the OECD has however considered several options and rated the Logistics Model (intermediary - express carrier) as the best performing model when compared with other models including the intermediary e-commerce and vendor collection models.

OECD International VAT / GST Guidelines

Published on April 12, 2017

- The OECD guidelines consider that the 'destination principle' should be applied to supplies of low value imported goods ('LVIG'), such that the goods should generally be:
 - GST-free from the place of export; and
 - Taxed in the place where they are imported (at the same rate as equivalent domestic goods).¹
- The OECD guidelines do not contain a detailed discussion nor make any recommendations as to whether (and if so, how) GST / VAT should be collected on LVIG.

Consumption Tax Trends 2016

Published on November 30, 2016

- The OECD does not provide any recommendations as to the model through which countries can apply GST / VAT to LVIG in this publication, but rather, summarises the position currently adopted within the OECD.
- Many jurisdictions currently have exemptions from GST / VAT for goods that are of a low value, due to the costs of administering and collecting the GST / VAT on these imports.²
- The GST / VAT exemptions for LVIG have become increasingly controversial as a result of the growth in the digital economy, which has meant that there has been a significant increase in the volume of cross-border low value sales of goods.³
- The difficulty lies in finding the balance between the need for appropriate revenue protection, avoidance of distortions of competition and the need to keep the cost of collection proportionate to the GST / VAT collected on imports of low-value goods.⁴
- As the GST / VAT exemption thresholds in many jurisdictions were established before the advent and growth of the digital economy, the OECD considers that countries may need to review their

¹ OECD International VAT / GST Guidelines, published 12 April 2017, pg. 16

² Consumption Tax Trends 2016, published 30 November 2016, pg. 26

³ *ibid*, pg. 26

⁴ *ibid*, pg. 27

policies on taxing e-commerce to ensure that they are still effective, however does not make any specific recommendations on how GST / VAT should be applied to LVIG.

- Many GST / VAT systems within the OECD apply an exemption for the importation of low value goods. These thresholds vary widely from USD 11 (in Denmark) to USD 671 (in Australia).⁵
- Only 2 countries within the OECD (Chile and Turkey) do not apply thresholds to the imports of goods, and collect tax on all goods at the time of importation regardless of their value.⁶
- A number of OECD jurisdictions are currently considering the possible removal or limitation of their GST / VAT exemption thresholds and the implementation of more efficient tax collection models on imports.⁷
- Specifically, the report references the proposed changes to the VAT treatment of LVIG in the European Union ('EU').⁸ These proposed changes are aimed at further simplifying the VAT rules for cross border e-commerce across Europe and are planned to be implemented in 2021.⁹ Under the proposed new EU rules, the existing import VAT exemption for small value consignments would be withdrawn, with import VAT being accounted for via an expanded VAT One Stop Shop, i.e. businesses would report import VAT due across the whole of the EU via a single electronic VAT return. Businesses registered under the VAT One Stop Shop would be able to designate an EU intermediary (such as a market place, courier, postal operator or customs agent) to undertake VAT-related compliance.

Addressing the Tax Challenges of the Digital Economy, Action 1 - 2015 Final Report

Published on October 05, 2015

- OECD has issued a report detailing possible approaches for a more efficient collection of GST on the import of low value goods, which could allow for the reduction or removal of the GST exemption thresholds.¹⁰
- The publication does not recommend any particular model, however evaluates a number of alternative models, and indicates a Logistics Model (intermediary – express carrier) is likely to provide the best outcomes.¹¹

Models considered by the OECD

- The OECD considered 4 models in its report:
 1. Traditional collection model (i.e. customs collects the GST at the border from the relevant importer of record / person designated as the importer);
 2. Purchaser collection model (i.e. the purchaser is required to self-assess and pay the GST on purchases of LVIG through either a pre-release or post-release model);

⁵ *ibid*, pg. 48

⁶ *ibid*, pg. 26

⁷ *ibid*, pg. 27-8

⁸ *ibid*, pg. 27-8

⁹ Refer to the European Commission's Fact Sheet, Modernising VAT for e-commerce: Questions and Answers, published December 1, 2016, available at http://europa.eu/rapid/press-release_MEMO-16-3746_en.htm

¹⁰ Addressing the Tax Challenges of the Digital Economy, Action 1 - 2015 Final Report, published 5 October 2015, Annexure C

¹¹ *ibid*, pg. 209-16

3. Vendor collection model (i.e. the supplier / vendor is responsible for remitting GST on its sales of goods that are imported into Australia); and
4. Intermediary collection model (i.e. the GST liability on imported goods is shifted onto intermediaries in the supply chain, such as the logistics operators, commercial agents (such as e-commerce platforms) and financial intermediaries).¹²

OECD assessment of GST collection models on LVIG

- The collection models were measured against the Ottawa taxation framework, and specifically the criteria of neutrality, efficiency of compliance and administration, certainty and simplicity, effectiveness, fairness, and flexibility.¹³
- The overall results of the evaluation of the collection models are summarised in the table below, and demonstrate that an intermediary model which shifts the GST liability to the logistics operator / express carrier, provides the best outcomes.¹⁴

	Collection model OECD Terminology	Neutrality	Efficiency	Certainty / Simplicity	Effectiveness	Fairness	Flexibility
	Traditional	Low	Low	Medium	Medium	Low	Medium
	Purchaser	Low	Low	Low	Low	Low	Low
The Bill's hybrid Vendor Collection Model	Vendor	Medium	Low	Medium	Low	Medium	Medium
	Intermediary (e-commerce)	Medium	Medium	Medium	Medium	Medium	Medium
Logistics model	Intermediary (express carrier)	Medium	Medium	High	High	Medium	Medium

- The currently proposed changes to EU VAT rules in relation to LVIG referred to above seem to be following the OECD's evaluation of potential collection models.
- The OECD in considering the Vendor Collection Model, observed that due to reliance on self-compliance it should be *"combined with a with a fall-back rule based on the Traditional Collection model in case of non-compliance."*¹⁵
- The report also recognised that the efficient and effective collection and remittance of taxes on low value goods at importation would require that the relevant stakeholder responsible for the GST / VAT have access to the necessary information about the goods, to enable the GST / VAT liability to be determined.¹⁶

¹² *ibid*, pg. 193-208

¹³ *ibid*, pg. 194

¹⁴ *ibid*, pg. 209-16

¹⁵ *ibid*, pg. 213

¹⁶ *ibid*, pg. 192-3

- The table below (extracted from the report)¹⁷ summarises the information typically available to each stakeholder in the supply chain, and demonstrates that the express carriers and postal operators are likely to have more access to information relevant to determining the GST / VAT liability on a supply of LVIGs than operators of e-commerce platforms.

Table C.2. Minimum information available to each stakeholder in the supply chain

Stakeholder	Nature of the goods	Value	Country of destination	Time of import/delivery	Transportation data	Taxes and duties (incl. thresholds)
Purchaser	Yes	Yes	Yes	Yes	Maybe	Maybe
Vendor	Yes	Yes	Yes	Maybe	Yes	Maybe
Transparent e-commerce platform	Some	Yes	Maybe	Maybe	Maybe	Some/Maybe
Express carrier	Yes	Yes	Yes	Yes	Yes	Yes
Postal operator	Maybe	Maybe	Yes	Yes	Yes	Yes
Financial intermediary	No	Yes	Maybe	No	No	No

¹⁷ ibid pg. 193