# Addendum A:

# Estimating the direct GST revenues from alternative collection models

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# Contents



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# Addendum A: Annual Impacts

## Step 1: Maximum additional GST from abolishing the threshold

To estimate the potential annual impacts of the two alternative collection models, it is first necessary to estimate the maximum additional GST available in each year from abolishing the threshold.

***Table 1: Annual volumes of low value consignments and mail items, 2018-19 to 2022-23***

| Value range ($) | Consignment value (% share) (a) | | Average value (d) ($) | Volumes (millions) | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Business/ other | Individual | | International mail (b) | Air cargo (c) 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
| 0-100 | 22.2 | 77.8 | 45.2 | 34.9 | 26.4 | 28.4 | 30.5 | 32.8 | 35.3 |
| 101-200 | 28.6 | 71.4 | 143.1 | 6.3 | 5.1 | 5.4 | 5.8 | 6.3 | 6.8 |
| 201-300 | 33.3 | 66.7 | 244.4 | 2.7 | 2.3 | 2.5 | 2.7 | 2.9 | 3.1 |
| 301-400 | 30.0 | 70.0 | 347.0 | 1.5 | 1.3 | 1.4 | 1.6 | 1.7 | 1.8 |
| 401-500 | 33.3 | 66.7 | 446.8 | 1.0 | 1.0 | 1.0 | 1.1 | 1.2 | 1.3 |
| 501-600 | 33.3 | 66.7 | 548.2 | 0.6 | 0.7 | 0.8 | 0.8 | 0.9 | 1.0 |
| 601-700 | 44.4 | 55.6 | 648.5 | 0.4 | 0.6 | 0.6 | 0.7 | 0.7 | 0.8 |
| 701-800 | 44.4 | 55.6 | 749.4 | 0.1 | 0.5 | 0.5 | 0.6 | 0.6 | 0.7 |
| 801-900 | 44.4 | 55.6 | 848.4 | 0.1 | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 |
| 901-1000 | 50.0 | 50.0 | 943.8 | 0.1 | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 |
| | | | | **47.5** | **38.8** | **41.7** | **44.8** | **48.2** | **51.8** |

Sources/assumptions:
(a) CIE (2016), p21
(b) PC (2011), Table 7.3
(c) ACBSPS & Dep't Ag (2014) estimate of "over 27 million" annual SAC parcels in 2013-14, grown by a conservative 7.5% over the following six years to 2019-20
(d) CIE (2016), p21

The estimates in the table above:

- Assume that the average price of each low value consignment remains at the current average price estimated in the 2016 CIE report. This is consistent with the observation of no change in average prices for parcel groups above $100 between the PC (2011) analysis and the CIE (2016) analysis. The price of the $0-$100 group did grow between 2010-11 and 2015-16. This means our assumption of no change in the average price of this group going forward is likely conservative.
- Hold the volume of international mail packages at the level shown in the PC (2011) report, consistent with our original 2019-20 estimates, as no new data is available.
- Assume conservative growth of 7.5 per cent in air cargo volumes each year since 2013-14, consistent with our original 2019-20 estimates.

If full GST were collected on all non-business sales, this would be equivalent to around $894 million additional GST in 2018-19, growing to around $1.05 billion in 2022-23. This should be thought of as the maximum potential additional gross GST revenue available under a policy that removes the current $1,000 import GST threshold.

The total estimate of around $4.8 billion over the five years to 2022-23 is *all* potential GST revenue on low value imports across the years 2018-19 to 2022-23. In line with the PC (2011) methodology, this potential GST for all non-business parcels assumes that "no parcels contain goods exempt from GST or are addressed to exempt entities."[1,2]

***Table 2: GST applied to all low value consignments and mail items, 2018-19 to 2022-23***

| Value range ($) | GST applicable (g) ($ million) | | | | | |
|---|---|---|---|---|---|---|
| | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | Total |
| 0-100 | 262 | 271 | 281 | 292 | 303 | 1,410 |
| 101-200 | 148 | 153 | 158 | 164 | 170 | 793 |
| 201-300 | 108 | 111 | 115 | 120 | 124 | 578 |
| 301-400 | 89 | 92 | 96 | 100 | 103 | 481 |
| 401-500 | 76 | 79 | 82 | 86 | 89 | 412 |
| 501-600 | 62 | 65 | 68 | 71 | 74 | 340 |
| 601-700 | 52 | 54 | 56 | 58 | 61 | 280 |
| 701-800 | 33 | 35 | 37 | 39 | 42 | 186 |
| 801-900 | 34 | 36 | 39 | 41 | 44 | 195 |
| 901-1000 | 30 | 31 | 33 | 35 | 38 | 167 |
| | **894** | **929** | **966** | **1,005** | **1,048** | **4,842** |

Sources/assumptions:
(g) 10% GST

## Step 2: GST import compliance

The table below summarises the implied Treasury collection rate under the hybrid Vendor Model calculated from Treasury estimates of both the additional GST associated with the abolition of the current $1,000 GST import threshold (2016-17 Budget) and foregone GST revenue with a continued importation threshold of $1,000 (2015 Tax Expenditures Statement – the last time these estimates were published). It also includes the Treasury estimate of a 54 per cent collection rate from 2022-23 onwards, as advised by Treasury/ATO at the Senate Legislation Committee hearings of 21 April 2017.

***Table 3: Implied collection rate under hybrid Vendor Model, 2018-19 to 2022-23***

| | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|---|---|---|---|---|---|
| Foregone GST revenue ($m) | 480 | 480 | | | |
| GST collections ($m) | 100 | 130 | | | |
| Implied collection rate | 0.21 | 0.27 | 0.36 | 0.45 | 0.54 |

Source: Australian Treasury

In line with our earlier analysis, it is very likely that the collection rate under a Logistics Model will be higher than under a hybrid Vendor Model. Our assumed 70 per cent collection rate for 2019-20 is driven by the following.

- The GST base calculated in Step 1 includes all non-business international mail and air consignments that enter Australia and there are likely some that would not attract GST (such as GST-free items) under the Logistics Model (this is also true of other models, including the hybrid Vendor Model).

[1] PC (2011) Table 7.3, p181.
[2] In calculating the final potential GST revenue from low value imports under alternative collection models (in the following sections), the collection rate applied includes an adjustment for any potential GST exemptions.

- Further, the compliance rate of 98-99.9 per cent for low value imports under the existing system was estimated by the Department of Immigration and Border Protection with the current threshold in place. Removing the current $1,000 threshold and converting to a Logistics Model may lead to slightly lower compliance.

Similar to Treasury's assumption of a gradual maturing of the collection rate, this is also likely under a Logistics Model. The table below shows a conservative assumed collection rate of 65 per cent in the first year, growing to our assumed 70 per cent collection rate in 2019-20, before settling on an 85 per cent collection rate from 2022-23.

***Table 4: Assumed collection rate under Logistics Model, 2018-19 to 2022-23***

| | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|---|---|---|---|---|---|
| Assumed collection rate | 0.65 | 0.70 | 0.75 | 0.80 | 0.85 |

Source: KPMG

## Step 3: Potential revenue collections

Applying the annual collection rates discussed in Step 2 to the maximum potential annual GST from Step 1 gives between $325 million and $400 million in potential additional annual GST revenue in the first five years of application. The estimated total over the five years to 2023 in higher potential GST collections under the Logistics Model compared to the hybrid Vendor Model is $1.8 billion.

***Table 5: Potential GST revenue under alternative collection models, 2018-19 to 2022-23***

| | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | Total |
|---|---|---|---|---|---|---|
| hybrid Vendor Model | $188m | $251m | $348m | $452m | $566m | $1.8b |
| Logistics Model | $581m | $650m | $724m | $804m | $891m | $3.7b |
| difference | $394m | $399m | $377m | $352m | $325m | $1.8b |

Source: KPMG

Splitting this higher GST revenue across the states and territories based on the GST shares from the latest Budget papers indicates that adopting the Logistics Model could result over the five years to 2023 in an additional $537 million in GST revenues for New South Wales, an extra $426 million for Victoria and $435 million for Queensland, and an additional $184 million for South Australia, $98 million for the Northern Territory, $70 million for Tasmania, $61 million for Western Australia and $35 million for the Australian Capital Territory.

***Table 6: Potential GST revenue by State and Territory, 2018-19 to 2022-23***

| | NSW | VIC | QLD | WA | SA | TAS | ACT | NT | Total |
|---|---|---|---|---|---|---|---|---|---|
| hybrid Vendor Model | $525m | $417m | $425m | $60m | $180m | $68m | $34m | $95m | $1.8b |
| Logistics Model | $1,063m | $843m | $860m | $121m | $365m | $138m | $69m | $193m | $3.7b |
| difference | $537m | $426m | $435m | $61m | $184m | $70m | $35m | $98m | $1.8b |

Source: KPMG

*KPMG modelling suggests that adopting the hybrid Vendor Model rather than the Logistics Model could cost the states and territories around $1.8 billion in foregone GST revenue over five years.*