



Submission to Senate Committee Inquiry into the Treasury Laws Amendment (GST Low Value Goods) Bill 2017

April 2017

1. Executive Summary

Australia Post plays an integral role in the international supply chain for inbound mail and cargo destined for all Australians. This facilitation of trade and eCommerce supports and strengthens Australia's economy.

As Australia's designated postal operator to the Universal Postal Union (UPU), Australia Post efficiently implements international postal treaty obligations, facilitates eCommerce and contributes to border clearance by presenting mail to border agencies. In accordance with the UPU treaty and Australian legislative requirements, Australia Post is required to supply postal services within Australia and internationally. Australia Post is a Government Business Enterprise and performs its functions consistent with sound commercial practice.

In our previous discussions with The Treasury and the Australian Taxation Office (ATO) in the course of the development of the proposed *Treasury Laws Amendment (GST Low Value Goods) Bill 2017*, Australia Post offered its cooperation to assist in the development of a workable model for the collection of GST on low value goods in a manner that would not hinder the flow of goods and enable revenue collection to work smoothly.

As a major logistics and mail industry participant, Australia Post will be adversely impacted by additional administrative complexity and processing caused by the imposition of additional revenue collection responsibility in clearing items across the border and the "last mile" delivery of those items under any of the revenue collection models.

However the "Vendor" model as proposed in *Treasury Laws Amendment (GST Low Value Goods) Bill 2017* (Bill) places relatively less burden on the Australia Post infrastructure, processing times and its costs of doing business compared to the "Transporter" model which we understand has been promoted by a number of large international eCommerce platform operators. The Transporter model would place an unreasonable burden on us and would materially impact on the efficiency and effectiveness of eCommerce for a large cross section of Australian consumers, both individuals and businesses. The above issues were referred to in the Low Value Parcel Processing Taskforce Final Report in July 2012.

2. International Mail

There are three avenues for low value goods to enter into Australia: These are:

- International Mail;
- Air Cargo; and
- Sea Cargo.

Australia Post is a major participant in all the above channels, together with its subsidiary and joint venture companies.

Since 2011, Australia Post has worked closely with the Productivity Commission Inquiry into the Economic Structure and Performance of the Australian Retail Industry as well as the Low Value Import Threshold Taskforce to ensure key decision makers clearly understand the complexity of the International supply chain and seek alternative methodologies to the physical collections at the border of GST on low value imports that are electronically driven.

The majority of low value goods are imported through international mail with over 56 million international items being cleared through international mail for 2015/16. Australia Post submits that any changes to the border process must expedite clearance to support the eCommerce economy in a practicable and cost effective approach.

Australia Post strongly supports the policy stated by the Government of not stopping mail and goods at the border while the implementation of the proposed legislation is monitored over the course of the next two years. Australia Post would also like to be part of, and contribute to, the consultation process for the development of any further refinements to the proposed taxation model for low value imports.

3. The Transporter Model

There are severe implications if Australia Post was to physically collect GST at the border – known as the Transporter model as additional resourcing, administration, new infrastructure and systems would be required to be put in place. The cost modelling shows that approximately \$900 million per annum would be required to support this model. This would include:

- additional staffing costing up to \$560 million per annum in new employment costs and training costs for staff and customer education campaign;
- administering, enforcing and complying with this responsibility would require approximately \$160 million per annum in new costs;
- there would be a high likelihood of abandonment and non-payment especially for very low value goods. Processes for managing abandoned goods are cumbersome under the Customs Act 1901 as items are required to be notified to enable the recipients 30 days for responses and also costly for Australia Post which incurs the costs of returning abandoned goods to the sender, resulting in around \$120 million per annum in return/abandoned costs; and
- additional infrastructure costs to increase warehouses, equipment and storage for items to be assessed; create new IT systems and depreciation of approximately \$60 million per annum would be needed for implementation.

If responsibility for revenue collection of international mail was shifted to Australia Post as a part of a Transporter model, the overarching costs to the Federal Government (either directly as a subsidy to or indirectly through loss of profits from Australia Post) of approximately \$900 million per annum would exceed GST revenue to be collected of approximately \$300 million per annum..

In the absence of government funding of the GST collection process Australia Post would need to charge recipients for the service of collecting GST, potentially at greater cost than the GST liability being collected to recover the \$600 million gap in costs or the full \$900 million. If the additional costs were passed on to the recipients, the charges could also be disproportionately high compared to the value of the goods, as most of the goods are likely to be less than \$100.

Any proposal involving collection of GST under a model that requires collection at the border is likely to render Australia Post mail and parcels business unviable in the current market of continuing and significant decline in mail volumes that have put severe strain on the financial position of the corporation.

4. The Vendor Model

The implications for Australia Post under the proposed legislation are diminished significantly as there is no requirement to physically collect GST at the border and therefore under the Vendor model would not delay the flow of trade across the border.

The Vendor model is consistent with the current GST law mechanism of collecting tax from a supplier on the value of a taxable supply if a supply is connected with Australia with reverse charge collection in certain exceptional circumstances.

The Vendor model will be more efficient and less cumbersome as the number of taxpayers would be limited to the registered participants under the proposed Bill. It is more amenable to monitoring for compliance and likely to be more successful than a Transporter model.

The proposed Bill to collect GST on low value goods is also conceptually consistent with the already implemented proposal in respect of supplies of digital products and services.

5. Conclusion

Australia Post wishes to co-operate in implementing the proposed legislative changes in a cost efficient way that does not disrupt or delay International Mail and cargo into Australia.

We support the Vendor model as proposed in the *Treasury Laws Amendment (GST Low Value Goods) Bill 2017*, however with a delayed implementation date of 1 July 2018.