

## Chapter 2

### Views on the bill

#### Introduction

2.1 The views expressed in the submissions and the hearings, of course, strongly reflect the interests of the authors and the witnesses. Partly in response to questioning, a number of witnesses suggested criteria for a good tax. There was some consensus that these were simplicity, efficiency, effectiveness and fairness.

2.2 There was general acceptance of the notion that individual consumers' imports should be treated the same for tax purposes as imports purchased from a local retailer.

2.3 However, several stakeholders suggested that the measure should be opposed because it was a trade barrier. Others contested the idea that the bill would create a level playing field. It was suggested that the measure was inconsistent with the design of the GST.

2.4 The most common objections to the bill had to do with the method of collection of the GST, both in terms of transaction costs and in terms of creating a tax liability for entities which are not sellers of goods.

2.5 Concerns were further expressed that Australian consumers might lose access to some online suppliers and, worse, that the additional costs for complying importers would make them uncompetitive with less secure, reliable or honest suppliers. This was especially so given the difficulties of enforcement if compliance was not voluntary.

2.6 Several witnesses at the hearing complained that the process for introducing the bill had been flawed, and, in particular, that the time before the tax takes effect was far too short. Others suggested that it would be better to wait until an international agreement had been reached on the treatment of cross-border sales.

2.7 There was some discussion of alternative models that might have been used.

#### Competitive neutrality

2.8 The strongest support for the bill came from bricks-and-mortar retailers. The Australian Booksellers Association argued that it restored the integrity of the GST and improved revenue collection, as well as creating a level playing field. Similar views were expressed by the Australian Retailers Association, the Australian Sporting Goods Association, and Mr Eddie Peters.<sup>1</sup>

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1 Australian Booksellers Association, *Submission 34*, [p. 2]; Australian Retailers Association, *Submission 13*, [p. 2]; Australian Sporting Goods Association, *Submission 4*, [p.4]; Mr Eddie Peters, *Submission 22*, [p. 2].

2.9 Professor Robert Deutsch made the point that, because the purpose of the measure is to create a level playing field, it would even be reasonable if there was a net revenue loss in the early years.<sup>2</sup>

2.10 Several submissions supported the general principle of charging the GST on low value imports. Amazon supported the reduction of the GST threshold to zero.<sup>3</sup> Alibaba, eBay and Etsy described the objective of providing a level playing field as 'laudable'.<sup>4</sup> The Conference of Asia Pacific Express Carriers (CAPEC) supported the bill 'in so far as it endorses a fairer tax system through a [Vendor Collect Model]'.<sup>5</sup>

2.11 However, a number of submitters and witnesses argued that the measure would not achieve competitive neutrality. Representatives of electronic distribution platforms pointed out that many of the sellers who used their services had turnover of less than \$75,000, so if they were Australian vendors they would not incur the GST. Ms Angela Steen of Etsy said:

[A]s Etsy sellers are predominantly microbusinesses...few of our sellers would ever reach the \$75,000 threshold that would require them to register and apply GST to sales under \$1,000. However, as the legislation currently treats platforms like Etsy as one individual seller, aggregating the sales of all of our international sellers into one and requiring us, as a platform, to register for the collection and remittance of GST, we would be forced to apply this 10 per cent GST charge onto each individual seller's product, even if this is the first sale that they ever make into Australia.<sup>6</sup>

2.12 A similar view was expressed by Mr John O'Loghlen of Alibaba.<sup>7</sup>

2.13 Several witnesses argued that the complexity of the tax would impose costs on compliant businesses which would put them at a competitive disadvantage versus non-compliant businesses. Further, the difficulty of enforcing a tax on foreign businesses meant that compliance rates would be low.<sup>8</sup>

2.14 Amazon pointed to the complexity and the difficulty of enforcement:

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2 Professor Robert Deutsch, Senior Tax Counsel, The Tax Institute, *Committee Hansard*, 21 April 2017, p. 53.

3 Amazon, *Submission 26*, p. 5; Mr Kevin Willis, Director, Global Trade Services, Amazon, *Committee Hansard*, 21 April 2017, p. 22.

4 Alibaba, eBay and Etsy, *Submission 27*, p. 2, Mr John O'Loghlen, Director, Business Development Australia and New Zealand, Alibaba Group, *Committee Hansard*, 21 April 2017, p. 19.

5 Conference of Asia Pacific Express Carriers (CAPEC), *Submission 8*, [p. 1].

6 Ms Angela Steen, Director, Government Relations, Etsy, *Committee Hansard*, 21 April 2017, p. 21.

7 Mr John O'Loghlen, Director, Business Development Australia and New Zealand, Alibaba Group, *Committee Hansard*, 21 April 2017, p. 20.

8 For example, Mr Kevin Willis, Director, Global Trade Services, Amazon, *Committee Hansard*, 21 April 2017, p. 20; Professor Robert Deutsch, Senior Tax Counsel, The Tax Institute, *Committee Hansard*, 21 April 2017, p. 53.

In any week, there are over a thousand [low value imported goods] suppliers that would be required to be registered for GST under the Bill, many of which would have little or no incentive to charge their customers GST. Where they do not comply, they benefit from being able to undercut the competition and attract consumers onto their websites.

Adding to this incentive not to comply, the Bill will require these offshore entities to develop bespoke systems to calculate, collect and remit GST. This means compliant sellers and electronic distribution platforms, which invest heavily in their customer service and value their strong reputations, are at a disadvantage relative to non-compliant competitors.<sup>9</sup>

2.15 A more specific issue of competitive neutrality was raised by freight forwarders and express services. They noted that they will be required to provide Vendor Registration Numbers to the ATO, whereas Australia Post will not. Mr Kim Garner of CAPEC noted:

Adding costs to CAPEC members' operating models to increase regulatory burden would give an unfair advantage to Australia Post.<sup>10</sup>

2.16 As well as increasing costs for freight companies, the exemption of Australia Post could provide a way to bring taxable goods in tax free, further disadvantaging the freight companies.<sup>11</sup> Online retailer Wiggle was also concerned that suppliers using postal services might not apply GST.<sup>12</sup>

2.17 Mrs Marisa Purvis-Smith of the Treasury explained that, where Australia Post competes directly with freight companies, it would have to meet the same requirements:

Where Australia Post competes with cargo...then it will have to do the same thing. It is in the mail stream only where it will not, which seems to be a different market as well. Consumers choose other forms of shipping other than Australia Post, or the Australia Post variants that compete, for different reasons. They usually are happy to pay a little bit more to get better tracking and faster delivery. In that market, Australia Post competes with other companies, and where Australia Post competes in that market it will need to do the same thing.<sup>13</sup>

### **GST on low value imports as a trade barrier**

2.18 A tax that is applied on imports which were previously untaxed is a 'barrier to trade'. A submission by Dr Chris Berg and Professor Sinclair Davidson argued that the

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9 Amazon, *Submission 26*, p. 11.

10 Mr Kim Garner, Chairman, Board of Directors, Conference of Asia Pacific Express Carriers, *Committee Hansard*, 21 April 2017, p. 32.

11 Mr Kim Garner, Chairman, Board of Directors, Conference of Asia Pacific Express Carriers, *Committee Hansard*, 21 April 2017, p. 32

12 Wiggle, *Submission 15*, p. 2.

13 Mrs Marisa Purvis-Smith, Division Head, Individuals and Indirect Tax Division, The Treasury, *Committee Hansard*, 21 April 2017, p. 62.

measure is actually a tariff, because it imposes the GST on sellers who do not have access to input credits as an Australian based seller would have.<sup>14</sup> Dr Berg and Professor Davidson also noted that the intention of the relatively high \$1000 threshold when it was first imposed was not only to reduce regulatory burdens but also to facilitate trade.<sup>15</sup>

2.19 A number of submissions made the general point that the measure was anti-free trade. The Export Council of Australia said:

The proposed law is anti-consumer and anti-free trade in nature at a time when we need to be seen as a leader and advocate for free trade.<sup>16</sup>

2.20 Disrupt Sports described the measure as 'anti online small business, anti free trade and anti consumer'.<sup>17</sup> The American Chamber of Commerce in Australia also described the measure as 'anti-free trade in nature'.<sup>18</sup> Alibaba, eBay and Etsy argued that the compliance costs for overseas businesses would constitute a barrier to trade, and the measure was 'contrary to Australia's advocacy for free trade'.<sup>19</sup>

2.21 The electronic distribution platforms made more pragmatic points about the restriction of trade. Mr John O'Loughlen of Alibaba pointed out that his company connected buyers and sellers. Australian companies such as Swisse, Woolworths, and Chemist Warehouse used Alibaba to sell into China many times the volume of goods that Chinese merchants sold to Australians. The complications introduced by the bill could harm this trade.<sup>20</sup>

2.22 Mr Jooman Park of eBay said that his company used one platform around the world, but the effect of the bill would be 'almost the same as developing a separate Australia site'.<sup>21</sup> Ms Angela Steen of Etsy said that blocking Australian users was a possibility because of the complexity and risk imposed by the bill.<sup>22</sup>

2.23 The effects on Australian businesses were also noted. The Export Council of Australia pointed out that many exporters were also importers of components, and would have to pay the tax on them, which would make them less competitive. They

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14 Dr Chris Berg and Professor Sinclair Davidson, *Submission 11*, p. 3.

15 Dr Chris Berg, *Committee Hansard*, 21 April 2017, p. 15; Professor Sinclair Davidson, *Committee Hansard*, 21 April 2017, p. 15.

16 Export Council of Australia, *Submission 29*, [p. 2].

17 Disrupt Sports, *Submission 6*, p. 1.

18 American Chamber of Commerce in Australia, *Submission 5*, p. 2.

19 Alibaba, eBay and Etsy, *Submission 27*, p. 7.

20 Mr John O'Loughlen, Director, Business Development Australia and New Zealand, Alibaba Group, *Committee Hansard*, 21 April 2017, 21 April 2017, p. 19.

21 Mr Jooman Park, Managing Director, Australia and New Zealand, eBay, *Committee Hansard*, 21 April 2017, p. 25

22 Ms Angela Steen, Director, Government Relations, Etsy, *Committee Hansard*, 21 April 2017, p. 26

further expressed concern that the measure would create a disincentive for foreign firms to do business with Australia.

2.24 The Laminated Cotton Shop explained how it might be affected:

...as a small home based business I find platforms like Ebay and Etsy give my handmade business visibility to a wide range of traffic that I would not be able to obtain without spending thousands of dollars on SEO and website optimisation. If these platforms are made to collect GST they will start to make it harder for Australians to buy from international sellers on their sites. The effect would be Ebay and Etsy would have very low traffic and the whole benefit to local sellers of being on there would be lost.<sup>23</sup>

2.25 Several submitters and witnesses pointed to the danger of retaliatory action by other countries. Mr Paul Drum of CPA Australia noted:

Australian small businesses continued to be less likely to use social media and online commerce for business purposes...Australian small businesses selling online are significantly more likely to grow than those that are not. But the uptake of these business tools has been sluggish, and any retaliatory tax moves from offshore markets will further stymie development...<sup>24</sup>

2.26 Mr John O'Loughlen of Alibaba said that reciprocal measures against Australian businesses were likely because this measure was a world first and, importantly, because it put overseas sellers at a disadvantage compared to Australian sellers by denying them the GST threshold.<sup>25</sup>

### **The revenue that would be collected**

2.27 The estimated revenue in the first three years of operation of the measure is projected to be \$300 million, with \$130 million in the third year.<sup>26</sup> Treasury confirmed that this represented a collection rate of about 27 per cent.<sup>27</sup> (Note that not all low value imported goods are taxable.) The Treasury estimates that collection rates could rise to about 54 per cent when 'compliance reaches maturity in 2022–23'.<sup>28</sup>

2.28 Thus the revenue would be, in today's values, in the region of \$260 million a year. This is a very small amount compared with the \$60,312 million collected in GST in 2015–16.<sup>29</sup>

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23 The Laminated Cotton Shop, *Submission 32*.

24 Mr Paul Drum, Head of Policy, CPA Australia, *Committee Hansard*, 21 April 2017, p. 51.

25 Mr John O'Loughlen, Director, Business Development Australia and New Zealand, Alibaba Group, *Committee Hansard*, 21 April 2017, p. 20; see also Ms Angela Steen, Director, Government Relations, Etsy, *Committee Hansard*, p. 21.

26 Explanatory Memorandum, p. 3.

27 Mr Robert Ewing, Principal Adviser, Tax Analysis Division, The Treasury, *Committee Hansard*, 21 April 2017, p. 61.

28 Mr Robert Ewing, Principal Adviser, Tax Analysis Division, The Treasury, *Committee Hansard*, 21 April 2017, p. 61.

29 ABS, *Taxation Revenue Australia, 2015–16*, Cat. no. 5506.0, April 2017.

2.29 Ms Erin Turner of Choice observed that Treasury had not fully modelled the revenue from the bill and in particular the costs of collection. She was not convinced that the revenue would exceed the costs.<sup>30</sup> Both Mr Paul Drum of CPA Australia and Professor Robert Deutsch of The Tax Institute thought that the Treasury estimates of compliance were 'on the high side'.<sup>31</sup>

2.30 Amazon produced modelling by KPMG which suggested that using a different collection method, the 'logistics model', under which GST is collected by logistics providers such as Australia Post, express carriers and freight forwarders, could increase collection rates to 70 per cent. (Note that the modelling appears to assume that GST would be payable on imports irrespective of the turnover of the seller.)<sup>32</sup> This would go further towards addressing 'the growing risk that the current arrangements pose to the integrity of the GST base', which is one of the stated objectives of the bill.<sup>33</sup>

### **The method chosen to implement the policy**

2.31 The proposal is that GST will be collected at the point of sale. Overseas vendors with a turnover of \$75,000 or more are required to register for, collect and remit GST on low-value goods supplied to consumers in Australia. This was largely found unexceptionable by submitters and witnesses.

2.32 However, the implementation of the scheme is more complex and contentious. Freight companies and express carriers will be required to collect Vendor Registration Numbers and submit them to the ATO. Electronic distribution platforms will be treated as suppliers, and liable for GST on all the sales that pass through the platform. Two schemes, one for consignments worth over \$1000 and one for consignments of \$1000 and under, will continue to operate.

#### ***Freight companies and express carriers***

2.33 Freight forwarders, express carriers and parcels delivery services in general support a Vendor Collection Model, in preference to collecting the tax at the border. However, they strongly oppose a system which requires them to collect ABNs and Vendor Registration Numbers. They argue that it creates complexity and will result in unnecessary delays, as well as increased costs which will be passed on to consumers.<sup>34</sup>

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30 Ms Erin Turner, Acting Director, Content, Campaigns and Communications, Choice, *Committee Hansard*, 21 April 2017, p. 28.

31 Mr Paul Drum, Head of Policy, CPA Australia, *Committee Hansard*, 21 April 2017, p. 56; Professor Robert Deutsch, Senior Tax Counsel, The Tax Institute, *Committee Hansard*, p. 57.

32 KPMG, *Estimating the direct GST revenues from alternative collection models*, 10 April 2017, pp. 4–5, Appendix D in Amazon, *Submission 26*; Mr Brendan Rynne, Partner, KPMG, *Committee Hansard*, 21 April 2017, pp. 23–24.

33 The Hon. Scott Morrison MP, Treasurer, *Second Reading Speech*, Treasury Laws Amendment (GST Low Value Goods) Bill 2017, *House of Representatives Hansard*, 16 February 2017, p. 1278.

34 Conference of Asia Pacific Express Carriers (CAPEC), *Submission 8*, Freight and Trade Alliance P/L, *Submission 7*.

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CAPEC points out that its members deal with 220 countries, with different business registration systems.<sup>35</sup> CAPEC argues that it would be more efficient for information to flow from the vendor to the ATO.<sup>36</sup>

2.34 As discussed above, freight companies expressed concerns that Australia Post will not be under the same obligation to report Vendor Registration Numbers, and will therefore have a competitive advantage.<sup>37</sup> The Tax Institute similarly thought that a model where goods entering the country by mail were inspected at the border was necessary for the integrity of the scheme.<sup>38</sup>

2.35 However, Mrs Marisa Purvis-Smith of the Treasury explained that GST would be payable by the vendor at the point of sale, regardless of the shipping method chosen.<sup>39</sup>

### *Electronic distribution platforms*

2.36 Electronic distribution platforms ebay, Alibaba and Etsy expressed disquiet that they will be liable for GST on goods which they have never owned, held, tracked or traded. They liken it to a landlord or a shopping centre being liable for GST on goods sold by tenants. They believe that the system will be complex and costly to administer, and the costs will be passed on to consumers.<sup>40</sup>

2.37 Mr John O'Loghlen of Alibaba was concerned about the complexity of the GST, where:

...prescriptive rules and exemptions result in bizarre outcomes such as crackers being taxable and dry bread being GST-free. Educating [foreign] business on this complex system would be near impossible.<sup>41</sup>

2.38 Ms Angela Steen of Etsy emphasised the company's role in supporting sellers rather than selling consumer goods itself:

Etsy.com provides a platform for sellers to list, market and showcase their goods. Etsy does not own, store, produce or warehouse these goods in any way. We provide a platform to connect sellers and buyers, but each Etsy seller individually can adopt their own Etsy shop policies. They fully control their own product pricing. They are fully responsible for the delivery of that product. Etsy does not hold, ship or deliver any of our

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35 CAPEC, *Submission 8*, [p. 4].

36 CAPEC, *Submission 8*, [pp. 1–2].

37 CAPEC, *Submission 8*, [pp. 2–4].

38 The Tax Institute, *Submission 14*, p. 3.

39 Mrs Marisa Purvis-Smith, Division Head, Individuals and Indirect Tax Division, The Treasury, *Committee Hansard*, p. 62.

40 eBay, *Submission 20*; Alibaba Group, eBay and Etsy, *Submission 27*.

41 Mr John O'Loghlen, Director, Business Development Australia and New Zealand, Alibaba Group, *Committee Hansard*, 21 April 2017, p. 20.

sellers' goods...Our business model does not currently support, nor was it ever built to support, the collection of GST.<sup>42</sup>

2.39 Ms Kristen Foster of eBay said:

I think it was the representative of the Treasury who mentioned that the GST needs to be applied at the point of sale. We do not see any of that money transferred across from consumer to eBay, so it is even the simplistic way that GST is done that is not really being clearly thought through.<sup>43</sup>

### ***Online retailers***

2.40 Online retailers, including Wiggle and ASOS, were concerned about the complexity of the scheme and the possibility that non-compliance could give less reputable firms a competitive advantage. In particular, both retailers pointed to complexity and impracticality of operating two systems, one for low value goods and one for goods over \$1000. Not only would there be extra administrative cost for them, but there was the potential for delays and double taxation if goods were stopped at the border.<sup>44</sup>

2.41 ASOS was also concerned about the need to distinguish supplies to consumers from supplies to businesses. It does not collect that information at point of sale, and to do so would slow down the sale.<sup>45</sup>

### ***Alternative models***

2.42 Several submitters and witnesses favoured a 'logistics model' under which GST is collected by logistics providers such as Australia Post, express carriers and freight forwarders (as opposed to the vendor collection model). Amazon, in particular, submitted detailed analysis. It argued that the logistics bodies had the electronic data collection and transmission systems in place to enable the collection and remittance of the tax.<sup>46</sup>

2.43 Mr Jooman Park of eBay pointed out that, while electronic marketplaces cover 25 to 30 per cent of imports, logistics companies handled virtually all imports.<sup>47</sup>

2.44 Perhaps most tellingly, Mr John O'Loughlen of Alibaba gave this judgement:

[Alibaba has] a minority share in Cainiao, a global logistics business that helps move over 60 million parcels around the world every day, including

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42 Ms Angela Steen, Director, Government Relations, Etsy, *Committee Hansard*, 21 April 2017, p. 21.

43 Ms Kristen Foster, Director, Government Relations, Australia, New Zealand, Japan and South East Asia, eBay, *Committee Hansard*, 21 April 2017, p. 25.

44 Wiggle, *Submission 15*, p. 2; ASOS, *Submission 2*, [p. 2].

45 ASOS, *Submission 2*, [p. 2].

46 Amazon, *Submission 26*, p. 7.

47 Mr Jooman Park, Managing Director, Australia and New Zealand, eBay, *Committee Hansard*, 21 April 2017, p. 19.

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within Australia. Because of this, we are in a unique position where we can deeply assess the impact of collecting the tax from the perspective of both logistics providers and electronic distribution platforms. After an internal assessment, we are strongly of the view that the proposed measures should be abandoned and replaced with a fairer, more effective model based on logistics providers being responsible for the collection of GST on low-value goods.<sup>48</sup>

2.45 However, Ms Erin Turner of Choice drew on the experience of consumers in the United Kingdom to argue that the logistics model was not desirable for them, in terms of cost and timeliness. She said:

Whenever we [have] seen modelling on a logistics model, usually it does rate favourably, but those readings may not be looking at the costs that are passed onto consumers, and that is what we encourage any assessment look at. A system is still high cost if the costs are not borne by government or businesses but are foisted onto consumers. Any assessment needs to be holistic.<sup>49</sup>

2.46 Mr Kim Garner of CAPEC also suggested that favourable analyses of the logistics model tended to ignore or understate the cost of collection. He offered some arithmetic:

If we use an example of collection at the border, in 2014–15 the CAPEC members, the four companies, brought 8.8 million low-value shipments into the country. That is 34,000 per day. If we have to collect that at the border, we have to make contact with 34,000 consignees. So it is a phone call; it is trying to find out what their numbers are. You call them and then you have to go through process: 'Are you reregistered for GST or are you not? Is this exempt or is it not? Are you are resident or are you not? Is this related to carrying on an Australian enterprise?' We would have to go through that 34,000 times a day with someone to work out whether GST is collectable or not. Then if it is, you have to make arrangements with them to actually collect it.<sup>50</sup>

2.47 Mr Paul Zalai of the Freight and Trade Alliance was sceptical as to the capacity of the integrated cargo system to cope with the amount of data the logistics model would generate.<sup>51</sup>

2.48 Another model that was proposed was based on using the self-assessment data already collected by the integrated cargo system for monitoring compliance. CAPEC

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48 Mr John O'Loughlen, Director, Business Development Australia and New Zealand, Alibaba Group, *Committee Hansard*, 21 April 2017, p. 20.

49 Ms Erin Turner, Acting Director, Content, Campaigns and Communications, Choice, *Committee Hansard*, 21 April 2017, pp. 28, 31.

50 Mr Kim Garner, Chairman, Board of Directors, Conference of Asia Pacific Express Carriers, *Committee Hansard*, 21 April 2017, p. 33.

51 Mr Paul Zalai, Director, Freight and Trade Alliance, *Committee Hansard*, 21 April 2017, p. 38, 42.

argued that there was already sufficient data for the ATO to collect the tax and monitor compliance. Alternatively, the vendor could communicate directly with the ATO.<sup>52</sup>

### *The Treasury response*

2.49 Mr David Pullen of the Treasury noted that the Organisation for Economic Co-operation and Development (OECD) had canvassed various models and concluded that the one used in the bill may result in good collection rates with relatively easy compliance:

The OECD...reaches conclusions such as that a border collection model for low-value goods is a very inefficient model to pursue given the growth in online sales and the cost of collection, and the amount of revenue that you would raise on each low-value good is quite low compared to the cost of collecting for each item. It also includes some conclusions around the vendor collection model. It identifies that it could improve the efficiency of the collection of VAT on low-value imports. It talks about e-commerce platforms already having most of the information that would be needed to assess tax liability. It says that taxing electronic distribution platforms could also provide an efficient and effective solution. It talks about the context of a vendor collection model potentially combined with an intermediary model such as utilising online platforms. It says that such a model may allow small and medium sized businesses to comply more easily.<sup>53</sup>

2.50 Mrs Marisa Purvis-Smith of the Treasury said that one of Treasury's priorities was to keep trade flowing across the border. Another was for the consumer to have a good experience. Keeping administration costs down was also important.<sup>54</sup>

2.51 Mrs Purvis-Smith noted that the solution chosen involves a balance, and including electronic platforms increased the efficiency of compliance for the measure. This is particularly important given that the number of businesses involved is likely to grow quickly. With regard to the logistics model, in fact the logistics companies do not necessarily have the information needed to collect GST. Further, the logistics model could involve a second point of payment for the consumer.<sup>55</sup> Treasury had liaised with the main players in the industry, including overseas and online suppliers, and believed that suppliers had the capability to implement the model. She conceded that suppliers would need to make system changes.<sup>56</sup>

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52 CAPEC, *Submission 8*, pp. 4–5; Mr Kim Garner, Chairman, Board of Directors, Conference of Asia Pacific Express Carriers, *Committee Hansard*, 21 April 2017, pp. 32-34.

53 Mr David Pullen, Manager, Individuals and Indirect Tax Division, The Treasury, *Committee Hansard*, 21 April 2017, p. 7.

54 Mrs Marisa Purvis-Smith, Division Head, Individuals and Indirect Tax Division, The Treasury, *Committee Hansard*, 21 April 2017, p. 6.

55 Mrs Marisa Purvis-Smith, Division Head, Individuals and Indirect Tax Division, The Treasury, *Committee Hansard*, 21 April 2017, p. 59, 61.

56 Mrs Marisa Purvis-Smith, Division Head, Individuals and Indirect Tax Division, The Treasury, *Committee Hansard*, 21 April 2017, p. 5–6.

## Impact on consumers

2.52 Various impacts on consumers, all unfavourable, were predicted, including the obvious outcome that the tax would increase prices. In addition, the costs of implementation, which could be substantial, would also be passed on.<sup>57</sup>

2.53 There was also concern that platforms might close their operations to Australian consumers. Mr Jooman Park of eBay said simply:

If the legislation passes as is—while we have no tax collection capabilities—it will force marketplaces like eBay to prevent Australian buyers from purchasing from foreign sellers. Because we do not want to violate the law, we may have to stop all overseas sellers from selling to Australians.<sup>58</sup>

2.54 Ms Erin Turner of Choice was particularly concerned for regional consumers and consumers with disabilities:

Anything for them that means they cannot get the goods easily delivered to their home is going to have a significant impact. This is not about cost and price; this is about the convenience that online shopping brings to their lives.

2.55 She also referred to people who had non-standard needs in terms of clothing sizes or sporting goods.<sup>59</sup>

2.56 It was also thought possible that the measure could cause reputable businesses to close access to consumers in Australia, or at least to increase their prices, and that this would force or encourage consumers to use less trustworthy sites.<sup>60</sup>

## Implementation

2.57 It is clear that there will be significant challenges for some parties in implementing this measure. As discussed above, it will require changes to the systems of the entities required to participate in the scheme.

2.58 CAPEC suggested that implementing the measure could take two or three years. The system changes are complex:

There is obviously a large investment required. If it is implemented as is then we have to report the VRN, the ABN and the extent to which it has been treated as a taxable supply. To actually put that through our worldwide systems would be an enormous task. Each member company has spoken to their IT people and just even trying to scope what that would take would be

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57 Mr John O'Loughlen, Director, Business Development Australia and New Zealand, Alibaba Group, *Committee Hansard*, 21 April 2017, p. 20; Ms Erin Turner, Acting Director, Content, Campaigns and Communications, Choice, *Committee Hansard*, 21 April 2017, p. 28.

58 Mr Jooman Park, Managing Director, Australia and New Zealand, eBay, *Committee Hansard*, 21 April 2017, p. 19.

59 Ms Erin Turner, Acting Director, Content, Campaigns and Communications, Choice, *Committee Hansard*, 21 April 2017, p. 29, 30.

60 Australian Taxpayers' Alliance and MyChoice Australia, *Submission 16*, para. 69–73.

an enormous task. Each of us has hundreds of different types of airway bills, hundreds of different types of front-end systems that those things go into which then flow into back-end systems.<sup>61</sup>

2.59 Further, express carriers cannot implement the changes unilaterally. Their systems have to tie in with those of the vendors.<sup>62</sup>

2.60 eBay described the system changes similarly:

...[B]usinesses will be required to design, test and implement substantial, far-reaching changes to global business models to accommodate Australia's demands.<sup>63</sup>

2.61 Mr Jooman Park expanded on this at the hearing:

...[W]e do not have tax collection capabilities...we do not even receive money from buyers. If the bill passes, we are not sure whether we can build tax collection capabilities into our system. eBay's business operates on one global platform. Adding tax collection capability to our platform only for Australia will cause major disruption to our global business, not to mention the significant financial investment we would have to make to build such processes and systems...This bill simply shifts expensive compliance costs from government to marketplace operators.<sup>64</sup>

2.62 Mr Kevin Willis of Amazon also emphasised the unusual nature of the measure:

From Amazon's perspective, and from my own personal perspective—having done cross-border trade compliance for 36 years—there has never been a tax of this magnitude. When you think about the vastness, the complexity and the number of players that we are talking about—which grows exponentially daily, as cross-border e-commerce and the attraction of the marketplace takes hold, including in Australia—it is difficult to quantify what the implementation costs are, as well as any impact on revenue, for instance.<sup>65</sup>

2.63 A number of submitters and witnesses commented on the timeline, requiring implementation by 1 July 2017. Reactions included that it was impossible,<sup>66</sup> it would

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61 Mr Kim Garner, Chairman, Board of Directors, Conference of Asia Pacific Express Carriers, *Committee Hansard*, 21 April 2017, p. 34.

62 Mr Kim Garner, Chairman, Board of Directors, Conference of Asia Pacific Express Carriers, *Committee Hansard*, 21 April 2017, p. 35.

63 eBay, *Submission 20*, p. 3.

64 Mr Jooman Park, Managing Director, Australia and New Zealand, eBay, *Committee Hansard*, 21 April 2017, p. 19.

65 Mr Kevin Willis, Director, Global Trade Services, Amazon, *Committee Hansard*, 21 April 2017, p. 25.

66 Professor Sinclair Davidson, *Committee Hansard*, 21 April 2017, p. 17.

take vendors two to three years and express carriers another year after that,<sup>67</sup> and that the time allowed for implementation was absurdly short.<sup>68</sup>

2.64 There was some questioning of why such haste was needed. Ms Erin Turner of Choice remarked:

I find it quite strange to see legislation that requires implementation just months after it is passed. It is very different to the other legislation we work on in financial services...all of those bills have had lead times of 12 months or more.<sup>69</sup>

2.65 On the other hand, Mr Paul Zalai and Mr Kainoa Lincoln of the Freight and Trade Alliance thought that their members could probably implement the measure in time. They conceded that this depended on the capacity of other systems to handle the measure, and also that their members had a relatively simple customer base.<sup>70</sup>

2.66 The Australian Retailers Association was anxious to avoid delay. It was pointed out that the measure had been discussed for a long time and also that the original GST implementation took a little over a year from the passage of the legislation.<sup>71</sup>

2.67 Mrs Purvis-Smith of the Treasury noted that the starting date of 1 July 2017 had been known since the measure was announced in May 2016. She conceded that system changes would be necessary. She noted that some platforms already had services that enabled businesses to differentiate import duty from sale price, and could handle the complexity of United States consumption taxes which varied from state to state.<sup>72</sup>

## **Enforcement**

2.68 A good deal of attention was given to how the measure was to be enforced, given that the vendors it purports to regulate are generally overseas. The ATO noted that it had identified a relatively small number of organisations that would be required to comply. The ATO would work with them to help them understand their obligations, which were straightforward. Given that they were predominantly large organisations

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67 Mr Kim Garner, Chairman, Board of Directors, Conference of Asia Pacific Express Carriers, *Committee Hansard*, 21 April 2017, pp. 35, 36.

68 Professor Robert Deutsch, Senior Tax Counsel, The Tax Institute, *Committee Hansard*, 21 April 2017, p. 53.

69 Ms Erin Turner, Acting Director, Content, Campaigns and Communications, Choice, *Committee Hansard*, 21 April 2017, p. 31.

70 Mr Paul Zalai, Director, Freight and Trade Alliance, *Committee Hansard*, 21 April 2017, pp. 41, 39; Mr Kainoa Lincoln, Business Operations Adviser, Freight and Trade Alliance, *Committee Hansard*, 21 April 2017, p. 41.

71 Mr Russell Zimmerman, Executive Director, Australian Retailers Association, *Committee Hansard*, 21 April 2017, p. 44.

72 Mrs Marisa Purvis-Smith, Division Head, Individuals and Indirect Tax Division, The Treasury, *Committee Hansard*, 21 April 2017, pp. 58, 5, 60.

with a history globally of complying with their obligations, the ATO expected a high rate of compliance. In part, the ATO relied on other businesses to complain where organisations were avoiding their obligations.<sup>73</sup>

2.69 Electronic distribution platforms were concerned that the measure would be difficult to enforce, particularly as there was no way to identify goods at the border. Mr John O'Loghlen of Alibaba pointed out that a business using its own website is not liable for GST until it reaches the threshold of \$75,000 turnover, and:

When they do exceed this mark, the onus will be entirely on them to report and collect the tax. The ATO is not equipped to monitor millions of Chinese businesses, and this will create an incentive for some businesses to dodge the tax and cheat the system.<sup>74</sup>

2.70 They noted that the Treasury's projection of the revenue to be raised by the tax suggested a relatively low compliance rate.<sup>75</sup>

2.71 Freight companies noted that the fact that Australia Post was not required to report Vendor Registration Numbers or ABNs created an easy channel for avoidance.<sup>76</sup>

2.72 The Australian Retailers Association noted that blocking of websites was one available method of enforcement which had been discussed by government officials.<sup>77</sup> Choice, in particular, expressed 'major concerns' about this suggestion.<sup>78</sup> Mrs Purvis-Smith of the Treasury noted that while that power might exist, the ATO had never used it to date.<sup>79</sup>

2.73 Mr Paul Drum of CPA Australia described the measure as a 'voluntary tax' because it would not be enforceable.<sup>80</sup> However, Mr Michael Croker of Chartered Accountants Australia and New Zealand suggested that Australia was an important enough market for overseas businesses to see compliance as in their interest.<sup>81</sup>

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73 Mr Timothy Dyce, Deputy Commissioner, Indirect Tax, Australian Taxation Office, *Committee Hansard*, 21 April 2017, pp. 4, 8, 11.

74 Mr John O'Loghlen, Director, Business Development Australia and New Zealand, Alibaba Group, *Committee Hansard*, 21 April 2017, p. 20.

75 Mr Prashant Kamalapuram, Director, International Tax, Amazon, *Committee Hansard*, 21 April 2017, p. 24.

76 Mr Kim Garner, Chairman, Board of Directors, Conference of Asia Pacific Express Carriers, *Committee Hansard*, 21 April 2017, p. 36.

77 Australian Retailers Association, *Submission 13*, [p. 3].

78 Ms Erin Turner, Acting Director, Content, Campaigns and Communications, Choice, *Committee Hansard*, 21 April 2017, p. 30.

79 Mrs Marisa Purvis-Smith, Division Head, Individuals and Indirect Tax Division, The Treasury, *Committee Hansard*, 21 April 2017, p. 60.

80 Mr Paul Drum, Head of Policy, CPA Australia, *Committee Hansard*, 21 April 2017, p. 51.

81 Mr Michael Croker, Tax Leader for Australia, Chartered Accountants Australia and New Zealand, *Committee Hansard*, 21 April 2017, p. 51.

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## Committee view

2.74 The committee notes that the imposition of GST on low value imported goods has been the subject of extensive inquiry and research. The case for equal treatment of offshore and onshore retailers is clear, as is the need to protect the GST base, given the expected rapid increase in the volume of such imports. The committee therefore regards this legislation as a step in the right direction.

2.75 The committee acknowledges the concerns of freight services that they are being asked to collect business information, but considers that this will become routine in a reasonably short time. While Australia is an 'early adopter' of this measure, it is likely that other countries will implement similar measures.

2.76 The committee accepts that the role of electronic distribution platforms is different from that of sellers. However, it believes that the bill represents a pragmatic solution to a difficult problem. It notes that the platforms have been able to make arrangements for a variety of situations in other countries.

2.77 The committee does not accept that the measure is a barrier to trade, as it merely extends a tax that is already paid on purchases within Australia to low value imports direct to consumers.

2.78 While alternative models have been suggested, the committee does not have sufficient information before it to form the view that any of these models is preferable to the one envisaged in the bill. It also notes the OECD's work in the area and that the OECD analysis, while not arriving at a specific recommendation, is consistent with the proposed model. The committee suggests that Treasury better articulate the rationale for its chosen model.

2.79 The committee notes the concerns expressed about the proposed implementation date, and the complexity of implementation and enforcement. It accepts that businesses may need more time and assistance to develop their systems to implement the measure.

### Recommendation 1

**2.80 The committee recommends that the bill be passed, but that the implementation date be delayed to 1 July 2018. The committee urges the government to note the concerns raised in paragraph 2.78.**

**Senator Jane Hume**  
**Chair**

