

Additional Comments by Senator Nick Xenophon

Levelling the playing field can be a logistical nightmare – let’s get it right

1.1 The Treasury Laws Amendment (GST Low Value Goods) Bill 2017 could be summed up in the words attributed to Thomas A. Edison: 'A good intention, with a bad approach, often leads to a poor result'. This is unfortunate because had the Government taken a different approach there would be a real opportunity for the Senate to pass legislation that levels the playing field between the online and traditional 'bricks and mortar' businesses in the retail sector.

1.2 The Government's proposed vendor collection model will go some way in collecting tax from large online platforms such as eBay and Amazon; however small businesses in Australia will still face competition from small online suppliers overseas who are unlikely to voluntarily comply with this legislation.

1.3 A Logistics Model is more likely to provide a competitive playing field between Australian and overseas retailers and improve the position of small business in Australia. However, this model is not without its critics. The Nick Xenophon Team supports GST being applied to low value goods purchased online but it is important that we get this right. Implementing a model which is voluntary, unenforceable and likely to raise less revenue than other collection models is unlikely to assist consumers and small businesses and will not level the playing field.

Background

1.4 I note some of the following material has been canvassed in the Chair's report, and I thank the committee for the work it has undertaken; however I think it is important to highlight the significant amount of work that has been completed prior to this legislation being presented to the Senate.

1.5 The issue of whether GST should apply to low value imported goods has been subject to a number of reviews. The Productivity Commission (PC) completed an inquiry in November 2011 and examined whether the low value threshold (LVT) of \$1000 should be lowered or removed to ensure tax neutrality. As outlined by Amazon in their submission, the PC made a number of recommendations including that '...the Government should not proceed to lower the LVT unless it can be demonstrated that it is cost effective to do so'¹ and also to '...establish a taskforce charged with investigating new approaches to the processing of low value imported parcels.'²

1.6 The then Labor Government established a Low Value Parcel Processing Taskforce which published its final report in July 2012. The Taskforce made 15 recommendations. One of these recommendations included the following, as outlined by Amazon in their submission:

1 Amazon, *Submission 26*, p.35.

2 Amazon, *Submission 26*, p.35.

That reform to the handling and administration of low value goods, incorporating a new option to collect revenue, would best be achieved through the application of simplified GST assessment arrangements for low value imported goods between a separate low value GST threshold set above \$0 and below \$1,000. This would require modifications to existing processes, including requiring Australia Post, express carriers and other freight forwarders to be responsible for collecting and remitting the revenue liability...³

1.7 In December 2012, the Gillard Government released an interim response and produced a Regulation Impact Statement which set out the steps that would need to be taken in order to implement a logistics model. Disagreement among state and territory governments under the Abbott Government delayed any progress until August 2015 when they agreed on a hybrid Vendor Model. The Turnbull Government then announced in the May 2016 Budget that a Vendor Model would apply from 1 July 2017.

Options for collecting GST on low value imported goods

1.8 There are four main collection models that would enable the Government to collect GST on low value imported goods.

Traditional Collection Model

1.9 The traditional collection model would involve the Department of Immigration and Border Protection collecting GST on goods under \$1000 prior to them being released from customs control. This method is not favoured due to inefficiencies and compliance costs.

Vendor Model

1.10 The vendor model requires the overseas seller to collect and remit GST to the Government. At the public hearing, a representative from Treasury stated:

One of the reasons a vendor registration model was chosen was because of the fact that the administration costs would not outweigh the revenue raised, and some of the other models, particularly collection at the border and other such models, do have those challenges associated with them. But given that the vendor registration model provides for the suppliers to charge the GST and remit the GST, it does not have the challenges of the administration costs outweighing the revenue raised.⁴

1.11 A significant issue that impacts on the ability of the Vendor Model to generate revenue from GST is that it is largely unenforceable. Evidence from CPA Australia at the public hearing was telling:

...this tax is voluntary. It is largely unenforceable. It will raise very little revenue. It is likely to only improve price competitiveness at the margin for

3 Amazon, *Submission 26*, p.37.

4 Mrs Marisa Purvis-Smith, Division Head, Individuals and Indirect Tax Division, the Treasury, *Proof Committee Hansard*, 21 April 2017, p. 4.

most retailers. It will do little, if anything, to make Australian businesses more competitive.⁵

1.12 The Government's hybrid Vendor Collection Model would most likely result in only the large, well known online platforms complying with the new legislation. There is a possibility that this model would create a system that incentivises customers to make transactions through smaller online businesses overseas. Consequently, this would expose small Australian retail businesses to online competition while large Australian retail companies experience the advantage of their online competitors complying with the new legislation.

Purchaser Model

1.13 The Purchaser Model allows a purchaser of low value imported goods to self-assess and pay GST. This model would rely on a purchaser pre-registration system and voluntary compliance and therefore is not a viable option.

Logistics Model

1.14 The Logistics Model, also known as the Intermediary Collection Model, places the burden of collection and remitting GST with intermediaries including postal operators, express carriers or e-commerce platforms. This model was favoured by many submitters, with Amazon submitting that the Logistics Model has a high degree of simplicity, certainty and effectiveness.⁶ Further, KPMG estimates that the Logistics Model could deliver GST revenue of approximately \$650 million compared to the hybrid Vendor Model which would deliver approximately \$260 million.⁷

1.15 However, the Logistics Model is not without its faults, as consumer representative group Choice demonstrated:

A logistics model essentially means that the tax is collected by couriers or bodies like Australia Post. This option would be simpler for bodies like eBay, Amazon and Etsy, but it would not be simpler for couriers, and it definitely would not be simpler for consumers. This kind of system, when we see it operating internationally, pushes costs onto consumers. The United Kingdom uses a logistics-style collection model to collect VAT on goods purchased outside of the European Union. This system, if you go through Royal Mail, requires consumers to pay an eight pound collection fee on top of VAT. The way the system works is that frequently consumers are not getting their goods delivered straight to their home. They need to go to the post office to pay the VAT and pay the fee to pay the VAT. It leads to delays and absurd additional costs.⁸

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

6 Amazon, *Submission 26*, p. 6.

7 KPMG, *Estimating the direct GST revenues from alternative collection models*, 2017, Appendix D in Amazon, *Submission 26*, p.5.

8 Ms Erin Turner, Acting Director, Content, Campaigns and Communications, Choice, *Proof Committee Hansard*, p.28.

1.16 In addition, the Freight and Trade Alliance outlined some concerns it had with the logistics model:

A logistics model is extremely complex. It has, as has been said several times today, a negative impact on the consumer experience, and it has proven that it is a really difficult way to go about things in other countries that have low thresholds—the UK was quoted earlier, but there are a number of countries like the UK and Canada that do it. It is a very difficult system and hard to administer.⁹

Choosing the right model

1.17 Levelling the playing field for small, medium and large retail businesses in Australia in the face of an ever increasing presence of online selling platforms is critically important.

1.18 The Senate should proceed with caution to ensure the good intention of this legislation does result in an outcome that is bad for small business and bad for consumers. The Nick Xenophon Team reserves its final position so that it can undertake further consultation with stakeholders. If the Senate decides to pass this bill, as the Chair recommends, the Nick Xenophon Team agrees with the recommendation that it be implemented from 1 July 2018.

Senator Nick Xenophon

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9 Mr Kainoa James Lincoln, Business Operations Adviser, Freight and Trade Alliance, *Proof Committee Hansard*, p.42.