



20 September 2021

The Board of Taxation
C/- The Treasury
Langton Crescent
PARKES ACT 2600

REVIEW OF GST ON LOW VALUE IMPORTED GOODS

To Whom it may concern,

Thank you for the opportunity to provide comment on the Review of GST on Low Value Imported Goods (LVIGs). Further to CAPEC's contribution at the online discussion forum on 08 September 2021, the following comments should be noted in response to the specific consultation questions.

The Conference of Asia Pacific Express Carriers (CAPEC) represents the world's leading integrated air express delivery service companies – DHL, FedEx, and UPS. CAPEC member companies handle a significant proportion of Australia's LVIGs and provide daily services to thousands of businesses of all sizes in all sectors of the Australian economy, as well as to millions of individual Australian consumers and households. CAPEC members deal directly with the ABF on a daily basis, with teams embedded in our members' facilities around the country to perform border clearance activities.

CAPEC is well aware of the current LVIG scheme, having worked with the Productivity Commission, Low Value Goods Parcel Processing Taskforce, ABF, ATO, and many other stakeholders over a 6 year period to develop a model that (1) addressed the legitimate tax neutrality and revenue leakage concerns and (2) maintained an efficient border clearance model for facilitating legitimate trade.

As part of the extensive consultation process, CAPEC members worked closely with the ATO to promulgate the scheme internationally. This included CAPEC members hosting ATO officials during several educational tours in Asia, Europe, the UK and the US. Given that Australia was the first country to introduce a vendor collect tax model on LVIGs, this process was critical in ensuring that vendors, re-shippers and e-commerce platforms were aware of how the system worked and how they could register and operate compliantly within it. The result has seen a streamlined registration and reporting process that has enabled GST to be collected efficiently offshore and remitted to the ATO periodically.



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Registrants provide CAPEC members with their ATO Registration Numbers (ARNs). These ARNs are then captured by CAPEC members in the country of origin and quoted to the ABF/ATO upon arrival of the LVIGs into Australia, as part of the GST reconciliation process. A publicly available listing of these registrants would assist CAPEC members in determining whether a consignment of LVIGs should contain an ARN, however following the ATO's clarification around why such a listing is not published, i.e. due to reduced Evidence of Identity requirements at the point of registration, CAPEC now understands why this is the case.

CAPEC sees the streamlined registration process as a real strength of the scheme. Once the overseas supplier meets the criteria of selling LVIGs to consumers, and having an annual turnover that exceeds AUD75K per annum, they simply register for an ARN and start providing this to CAPEC members when they collect the 10% GST at the point of sale in the country of origin. CAPEC's experience and understanding is that ongoing compliance is not a concern, as overseas suppliers are postured towards protecting their Australian consumer market and remaining compliant with tax authorities. The ATO has identified the major overseas suppliers of LVIGs and worked with them directly to achieve strong registration rates. CAPEC members continue to support these efforts.

The issue of GST refunds can cause some confusion if not handled correctly. Where consignments of LVIGs collectively pass the de minimus threshold of AUD1000.00, a Formal Import Declaration (FID) must be lodged. If it is not clear at the time of lodgment that GST has already been collected at the point of sale, it can result in GST being applied on the FID as well. This 'double taxation' must then be addressed between the importer and overseas supplier directly. Notwithstanding this, registrants are overwhelmingly cognizant of their requirement to clearly state where GST has been already been collected. This enables CAPEC members to quote the GST exemption code 'PAID' to avoid any double taxation.

The border clearance process for high value goods, i.e. via a FID, should not be conflated with how LVIGs are border cleared. This is due to the fact that the FID process is significantly more onerous in terms of involving a range of data that is not needed to clear LVIGs, including Harmonized System Tariff Codes (to calculate Duty), INCOTERMS, and Tariff Concession Orders, By-Laws, and Certificate of Origins (where applicable, to claim Duty concession). In addition, the World Trade Organization's Trade Facilitation Agreement, to which Australia is a signatory, contains provisions that require simplified clearance processes for LVIGs that arrive via both air express and postal pathways. To impose the FID process on LVIGs, therefore, is simply not a viable proposition. A key feature of the current model is its recognition of the (high) cost of collecting GST at the border once the LVIGs arrive in Australia. The cost of collection exceeds the GST revenue gained. This taxation principle underpins the vendor collect model.

From what CAPEC members understand from discussions with the ATO, the level of compliance with the scheme is high. This is due to a number of contributing factors such as a simplified registration process, a coherent communications strategy, ongoing dialogue with overseas suppliers (both current and potential registrants), and a willingness to remain part of a large, growing consumer market.



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COVID-19 has created several challenges for the air express industry sector. These include exponential volume growth of e-commerce LVIGs into Australia, and an increasing reliance on cargo-only aircraft (due to capacity constraints). Having an efficient and effective GST-collection model in place, i.e. the current model, has allowed for the facilitation of trade across the border to continue, whilst ensuring tax neutrality by enabling GST to be collected at the point of sale.

An important question to ask is, since 01 July 2018, have any international models been introduced that leverage new technologies and/or processes to create a better model than the existing ATO scheme. CAPEC members' position is that nothing has superseded the effectiveness and efficiency of the current vendor collect model. Moreover, a number of countries have progressed with similar schemes, such as New Zealand and Singapore.

In contrast, the European Union regulatory changes that have been introduced this year – primarily the abolition of the €22 VAT de minimus threshold – have been extremely cumbersome on importers, exporters, and logistics service providers alike. They have required significant investment in people and technology to meet the onerous new rules. It should be said that there are obvious challenges in developing a simple process amongst so many member states within the EU, however the fact remains that the new scheme is less efficient and more burdensome than the current Australian model.

Overall, CAPEC members' contend that the current model is working well, i.e. it is achieving its intended purpose. The ATO's GST revenue targets are being exceeded, overseas suppliers appear to be comfortable with the concept of a vendor collect model, Australian consumers are happy with paying GST at the point of sale (akin to a local retail experience), and CAPEC members and other logistics providers are able to avoid cost delays and congestion at the border by not having to collect GST upon arrival into Australia.

That said, CAPEC remains open to any new models that may further improve the current arrangements. To this end, CAPEC understands the Global Express Association (GEA) has developed a number of potential enhancements to the current vendor collect model that may be of interest. CAPEC understands that the GEA will be making a submission to the Review that provides greater detail on these enhancements.

Thank you again for the opportunity to provide comment. Please do not hesitate to contact the undersigned should you require any further information.

Yours sincerely,

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CAPEC Australia Executive Committee