



**Australian Government**  
**Australian Customs and  
Border Protection Service**

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Canberra ACT 2601

File: 2009/030559-01

The Board of Taxation  
C/- The Treasury  
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CANBERRA ACT 2600

Dear Working Group,

**Australian Customs and Border Protection Service's Submission - Discussion Paper on  
the Review of the Application of GST to Cross-Border Transactions**

Please find attached a submission from the Australian Customs and Border Protection Service (Customs and Border Protection) regarding the *Discussion paper on the Review of the Application of GST to Cross-Border Transactions*. The attached submission is made in confidence and should not be made publicly available in part or whole.

As the lead agency at the border, one of Customs and Border Protection's roles is to provide assurance that revenue liabilities arising at the border, including customs duty, indirect taxes such as GST and fees, are correctly reported, assessed, paid or deferred. The collection of GST arising from cross-border transactions makes Customs and Border Protection a key stakeholder in any review of revenue transactions at the border.

One of the options being explored in your discussion paper relates to a review of the current threshold limit of AUD\$1,000. Under this option, the discussion paper seeks to explore a possible reduction in the low value import threshold to allow more comprehensive taxation of private consumption in Australia.

The current threshold (set in 2005) was determined following recommendations made in a report by the Productivity Commission (Commonwealth Competitive Neutrality Complaints Office - Investigation No 5 - Customs Treatment of Australia Post, 2000). The AUD\$1000 limit aligned import entry thresholds across air and sea cargo, and postal import streams. It followed years of extensive consultation by Customs and Border Protection with stakeholders including industry bodies, Government agencies, and State and Territory governments.

A reduction in the current low value goods threshold is likely to have significant implications for Customs and Border Protection, other border agencies and the importing community.

The implications for Customs environment are covered in more detail in the submission attached.

Should you have any queries in relation to this, please contact Naa Opoku, Director Import/Export Policy on (02) 6275 6564.

*RM* (Robyn Miller)

for Sue Pitman  
National Director  
Trade and Compliance

4 September 2009

Cc:  
ND Cargo  
ND Intelligence & Targeting  
Snr Government Solicitor, Customs Legal Unit  
NM, Trade Policy and Regulation

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THE FOI ACT 1982



**Australian Government**  
**Australian Customs and**  
**Border Protection Service**

**AUSTRALIAN CUSTOMS AND BORDER PROTECTION SERVICE'S SUBMISSION**  
**- DISCUSSION PAPER ON THE REVIEW OF THE APPLICATION OF GST TO**  
**CROSS-BORDER TRANSACTIONS**

**1. INTRODUCTION**

The Australian Customs and Border Protection Service has a key interest in any matters related to cross border transactions. Customs and Border Protection would like to make the following submission in relation to Option 3.5 of the discussion paper that proposes a review of the AUD\$1,000 low value threshold for imported goods.

The discussion paper correctly identifies the import of goods under the low value threshold as having the potential to distort competitive neutrality and disadvantage Australian business, as customs duty and GST are not charged on such goods. This issue was recognised at the time the threshold was established.

The current threshold standardised in 2005, eliminated a competitive advantage across the postal and cargo environments. It was set at a level that had regard to the balance between revenue thresholds, the impost of regulatory burden on industry and the efficient movement of goods.

Any review of the threshold must ensure that these arguments are again fully considered, and balanced against the perceived disadvantage for Australian business.

**2. BACKGROUND**

**A. The Need for Change - Current Low Value Import threshold**

In 2000, the Commonwealth Competitive Neutrality Complaints Office (CCNCO) of the Productivity Commission investigated a competitive neutrality complaint lodged by the Conference of Asia Pacific Express Carriers (CAPEC) against Australia Post.

In the complaint, CAPEC claimed that Australia Post enjoyed a commercial advantage in competing for business as a result of the differences in the regulatory arrangements for postal and non-postal items. Specifically, CAPEC referred to the preferential treatment accorded to Australia Post by the (then) Australian Customs Service (now Australian Customs and Border Protection Service) in its treatment of international postal consignments.

At the time, postal items only became subject to Customs and Border Protection's screening requirements if their value exceeded AUD\$1,000. By comparison, the threshold applying to non-postal goods was AUD\$250. The differences in the threshold resulted in CAPEC members being subject to greater costs.

Additionally, Australia Post was exempt from reporting and cost recovery charges in respect of 'High Volume, Low Value' (HVLV) consignments.

CCNCO found in its investigation that Australia Post did receive a competitive advantage over express courier operators and in their report 'Customs Treatment of Australia Post, Investigation No 5' recommended that:

*'the value thresholds for formal screening by the Australian Customs Service of incoming and outgoing postal and non-postal items be aligned, at levels which strike an appropriate balance between revenue collection and risk management objectives and administrative efficiency considerations.'*

**B. Import Entry Requirements**

Goods that are above the entry threshold are subject to formal entry requirements. This is done in the form of a Full Import Declaration (FID). A FID requires detailed information to satisfy valuation elements for the calculation of duty and taxes, and statistical data for balance of trade purposes. Due to the complexity of the information required on a FID, the expertise necessary to classify goods in accordance with international standards and the legal consequences for false or misleading information in the calculation of revenue, only an importer or a licensed Customs broker may lodge a FID with Customs and Border Protection. The Government's incurred processing costs for FIDs are cost recovered from industry. CAPEC's submission identified that it had to engage specialist Customs brokers, incur cost charges and slow delivery times of goods when handling goods that could be processed through the post without impediment (notwithstanding the screening for prohibited goods).

The clearance process for goods imported into Australia may attract other fees and charges levied by industry operators (including freight forwarders and brokers) not controlled or determined by Customs and Border Protection.

**C. A Consensus Reached**

In May 2001, the then Minister for Justice and Customs responded to the report indicating that the Government intended to harmonise the import entry thresholds concurrent with the commencement of the imports components of the Integrated Cargo System (ICS).

Customs and Border Protection conducted detailed analysis on the impact of a revised and aligned import entry threshold which involved extensive consultation with stakeholders including industry bodies, Government Agencies, and State and Territory governments. Clearly, any change to the formal import entry threshold would affect importers and their agents, the industry sector (which includes express couriers, freight forwarders, customs brokers), and Australia Post's management of the importation of goods into Australia.

Customs and Border Protection worked closely with the Treasury, the Department of Finance and Administration, the Australian Quarantine and Inspection Service and the (then) Department of Communications Information Technology and the Arts to examine potential impacts of a change to the formal import entry threshold. Three options were identified:

1. aligning the revenue collection and declaration thresholds for air/sea cargo and postal imports at AUD\$500; or
2. a more complex arrangement setting:
  - a revenue collection threshold for air/sea cargo and postal imports at AUD\$500; and
  - two different declaration thresholds – one for air/sea cargo and the competitive Australia Post Express Mail Service (or future equivalent) products at AUD\$500; and one for other postal products at AUD\$1,000; or
3. aligning the revenue collection and declaration thresholds across-the-board (air/sea cargo and postal imports) at AUD\$1,000.

After consultation with State and Territory governments about the impact of GST revenue, the Government agreed to a harmonised entry and revenue collection threshold of AUD\$1,000. The strongest influencing factors were:

- Ensuring competitive neutrality in the handling of low value goods
- Maintaining the efficient movement of international postal articles
- A significant reduction of the impost on industry for clearing low value air cargo consignments
- The minimal impact on importers of low value goods
- The loss of a relatively small amount of tax revenue
- Removing the formal entry requirement for over 400,000 consignments per year; and
- A substantial reduction in administrative costs for government.

#### D. Threshold Harmonisation

In October 2005, the Government announced that the import entry threshold for both air and sea cargo would be set at AUD\$1000. The new threshold was effected by legislative amendments to the *Customs Act 1901*, Schedule 4 items in the *Customs Tariff Act 1985* and the *Customs Regulations 1926*, changes to ICS, and the development and implementation of policies and procedures (including the Self Assessed Clearance declaration process).

The harmonisation of the import entry threshold promoted a significant reduction in 'red tape' for a large number of importers and other stakeholders involved in the importation of goods. It means that items arriving by all modes of transport are treated in the same manner and results in a transparent method of calculating customs duty and GST.

The vast majority of low value goods imported by means other than by post are currently declared to Customs and Border Protection at the time of lodgement of a cargo report which significantly reduces compliance costs for reporters and importers. Postal goods that are low value do not require the lodging of postal import declarations, which has simplified the clearance process for low value postal articles.

In relation to the collection of GST, Treasury's view was that the harmonisation of the threshold represented an appropriate balance between concerns of competitive neutrality, administrative simplicity and enforcement costs. Additionally, the amended and aligned threshold provided an equitable treatment for all importers of low value goods (whether individuals or businesses), regardless of the mode of delivery.

### 3. THE IMPACT OF FUTURE CHANGE TO THE LOW VALUE GOODS THRESHOLD

The benefits from, and the effectiveness of, the equilibrium between the entry requirements for postal and non-postal goods is clear, and Customs and Border Protection makes this submission on the assumption that, it will not be disturbed.

#### A. Reduction in the Low Value Import threshold

##### a) *Collection Costs vs. Revenue Collected*

In April 2008, the Treasurer in response to correspondence<sup>1</sup> from a constituent concerned about how the low value import threshold disadvantaged Australia businesses, advised that a reduction of the threshold while resulting in increased duty and raise revenue would significantly increase the Government's administration costs. If the threshold was lowered from AUD\$1,000 to AUD\$500 the cost of collecting the additional revenue was estimated to be in the order of three times the net gain to the Commonwealth budget.

##### b) *Administrative and Compliance Costs*

For Australian businesses that imported low value goods, lowering the threshold would mean a reduction in private imports with more focus on locally manufactured goods. This would however, be at a cost to those businesses that import low value goods resulting from increased administrative and compliance costs<sup>2</sup>. This is particularly significant given the changes to the marketplace flowing from e-commerce, globalisation and current inflation rates.

##### c) *Increase in Resources for Processing International Mail*

It is currently estimated that it takes Customs and Border Protection on average 45mins to manually process a declaration for postal articles valued above the threshold as they require an import declaration to be made. Consequently any reduction in the threshold would create an increased demand in resources for Customs and Border Protection.

If the threshold was reduced to AUD\$500 it is estimated that there would be three to four fold increase in the number of declarations that would require processing by Customs and Border Protection at all gateway facilities in comparison to the number done in those facilities currently. This increase would have a significant impact on the number of Parcel Post Cards (PPC1s) and invoices that would be required to be mailed out to importers to advise them of the duty and tax calculation, and the declarations and payments that would be processed as a result. Importers would then be required to travel to a postal facility to pay for and collect their articles.

Detaining a significant percentage of postal articles for revenue purposes would present major logistical challenges. The lower the value, the more likely it is that additional infrastructure investment would be required by Australia Post to store all the extra postal articles. Customs and Border Protection would strongly

<sup>1</sup> Attachment A is a copy of the letter of 10 April 2008 from the Treasurer (Wayne Swan) on the impact of the threshold on Australian businesses.

<sup>2</sup> Refer to Footnote 1

recommend the review working group seeking comment from Australia Post in this regard.

A reduction in the threshold would also mean an increase in valuation issues in respect of low value low risk goods. These goods provide small revenue yields but would still divert border screening resources away from the targeting and interception of higher risk importations. The volume that would need to be processed would reduce Customs and Border Protection's capability to interdict narcotics, weapons and other prohibited imports in the International mail stream.

If the new threshold was to be as low as AUD\$20 to reflect the Canadian arrangements, then International Mail expects the workload of processing declarations would increase by 400 to 500 times compared to current volumes (See Table 1 below for current volumes and revenue collected in the International mail stream).

Table 1: National figures for 08/09 financial year

No of postal declarations reported in the ICS	22,134
No of postal declarations manually processed by Customs and Border Protection	15,093
Percentage of postal declarations lodged by licensed Customs Brokers	32%
Amount of revenue collected	AUD\$6,802,632

d) *Air Cargo Operations*

Lowering the threshold in the air cargo environment would result in an increase in valuation issues arising from the targeted, coverage and sampling activities undertaken. These valuation referrals would provide low revenue yields, introduce delays in the clearance of express cargo and consume resources that could be better utilised in responding to higher risks within Customs and Border Protection.

e) *Impact on Industry groups.*

Customs and Border Protection would strongly advise that the working group seek input from air cargo express couriers when considering the threshold level. A reduction in the threshold is likely to result in a need to engage an increased number of professional brokers to assess and clear consignments, and to reintroduce cost recovery charges for many consignments. All of those charges will ultimately be borne by businesses and importers.

A reduction would also be likely to delay many urgent transactions and create a competitive disadvantage to CAPEC.

f) *Impact on the ICS*

The Customs Integrated Cargo System has been designed to manage transaction volumes in line with the current entry threshold, with reserve capacity to deal with the expected increased volumes of imported goods over its working life. A change to the threshold may require system capacity upgrades to reflect a new threshold as hundreds of thousands of new declarations would be introduced, and each of these must be validated and processed. Transitional management

issues would also arise as Self Assessed Clearance declarations (SACs) created prior to the change taking effect would require the old threshold to apply to accurately reflect import transactions that took place prior to the change.

g) *Impact on Customs Information & Support Centre*

Reducing the threshold would result in many clients previously unaffected by duty and GST matters being required to meet the more complex issues of formal declarations (such as classification and valuation) for the first time. An analysis of requests for assistance from Customs Information & Support Centre suggests that a reduction of the threshold to AUD\$500, would result in a monthly increase of 7,500 inbound calls, 3,500 outbound calls and 400 emails. The Customs Information & Support Centre's current management figures are as follows:

Table 2: National figures for 08/09 financial year

No of inbound calls	270,514
No of outbound calls	540,000
No of emails and faxes	43,000

h) *Impact on Client Services*

A reduction in the low value import threshold would affect private 'one-off' importers who would be caught in the revenue net and would presumably require assistance from Customs and Border Protection's client services facility to manually lodge import declarations to clear their goods. The processing time for manually lodging declarations at a Customs and Border Protection counter is comparable to those processing times for postal articles. The increased workload would also create demand for additional resources at Customs and Border Protection counters, or result in increased wait times and lengthy queues.

i) *Implications for Importers.*

Customs and Border Protection notes that lowering threshold would have significant implications for importers of low value goods that needs to be carefully considered. The widely accepted use of the internet for the purchase of goods has led to an uptake by a large proportion of the general population, because of its ease of use and highly competitive pricing. The introduction of duties and taxes for a substantial number of transactions accompanied by unexpected processing charges and brokers fees would be poorly received by the general public.

j) *Low value goods thresholds of New Zealand and Canada*

In discussing the option for a possible reduction in the low value import threshold, the low value goods threshold of New Zealand of NZ\$400 (AUD\$317) and Canada (C\$20) is mentioned.

Customs and Border Protection understands from informal sources that New Zealand may be considering a review of its current threshold, and the working group may wish to confirm this with official sources in New Zealand. We would also note that cross border competitiveness issues are likely to be a strong influencing factor on Canada's current low value goods threshold of C\$20 (AUD\$22)

B. Alignment of the Revenue Threshold

Items 32A and 32B of Schedule 4 to the Customs Tariff Act 1995 (Customs By-Law No. 0540003 and Customs By-Law No. 0540004 respectively) allow for goods with a value not exceeding AUD\$1,000 that are one consignment and that are not tobacco and alcohol products, to have a duty rate of free. A *New Tax System (Goods and Services Tax) Act 1999* provides that goods that have a duty rate of free under Items 32A and 32B are also non-taxable importations. Failure to maintain the alignment of the revenue threshold with the low value goods threshold would create many unacceptable complexities for importers and the importing industry, increase compliance costs for business, and increase administration costs for Customs and Border Protection.

**4. SUMMARY**

The high volume of low value importations processed by Customs and Border Protection means its systems and processes are sensitive to a reduction in the low value import threshold. Any variations to the threshold would reduce the efficiency of cargo logistics operations by slowing down cargo clearance times.

Lowering the threshold would have implications for Customs and Border Protection. There would be significant costs involved in changing IT systems and business processes; and resources currently deployed across a range of border risks and compliance activity would need to be redeployed to deal with the additional workload.

Customs and Border Protection would also note that as there has been no increase in the threshold since 2005, the competitive neutrality issue in relation to revenue liability is being reduced over time in real terms.

**5. RECOMMENDATIONS**

Customs and Border Protection recommends that, any further analysis of changes to reduce the entry threshold should not be progressed until all the effects are identified and worked through with industry.

The Customs and Border Protection contact for this submission is:

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 (Robyn Miller)

for Sue Pitman  
National Director  
Trade and Compliance

4 September 2009

cc: ND Cargo  
ND Intelligence & Targeting  
Snr Government Solicitor, Customs Legal Unit  
NM Trade Policy and Regulation

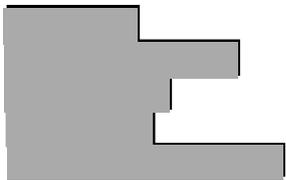


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10 APR 2008

Dear [Redacted]

Thank you for your letter of 23 January 2008 concerning the impact on Australian businesses of the exclusion from the goods and services tax (GST) and customs duty of imported goods with a value of \$1,000 or less.

The GST taxes all private final consumption in Australia with certain exceptions such as food, education and health. It applies broadly to goods and services, including imported goods above the low value import threshold of \$1,000. For imports worth \$1,000 or less, the relevant legislation provides that the Australian Customs Service does not collect customs duty or GST.

By way of background, the \$1,000 low value import threshold was introduced in October 2005 for all imports whether by sea, air cargo or post. Previously the formal entry thresholds were \$250 for air and sea consignments, \$250 for postal consignments carried by private couriers and \$1,000 for postal consignments carried by Australia Post. The thresholds were aligned taking into account an earlier recommendation of the Australian Government Competitive Neutrality Complaints Office (AGCNCO). In 2000, in response to a complaint from the private sector, the AGCNCO found that the lower postal threshold for private couriers put them at a disadvantage when competing with Australia Post in the same market.

You have expressed concerns that the low value import threshold may disadvantage Australian businesses because they must charge GST on their goods and services while private individuals can import goods that are GST free. I appreciate that businesses may view this as a competitive disadvantage. However, reducing the thresholds would have a number of consequences. As the threshold would need to be changed for businesses as well as individuals, it would increase the costs to businesses of importing their goods and services. While lowering the threshold would increase duty and raise revenue, this could only be achieved by significantly increasing Government administration costs. For instance, if the threshold was lowered from \$1,000 to \$500 the cost of collecting that additional revenue is estimated to be in the order of three times the net gain to the Commonwealth budget.

Where lowering the threshold reduced private imports, consumers could substitute towards locally sold goods. However, this would be at a cost to businesses that import low value goods and the Government and the public through increased administration and compliance charges.

Further, in comparing local and overseas goods, consumers may consider factors such as the costs of shipping and handling and some risk in terms of warranties, after sales service and the potential non-supply of goods for which payment has already been made. There is no doubt that the changing nature of the marketplace, including through e-commerce and globalisation, presents challenges to businesses, but there are significant benefits to purchasing locally, which businesses can use to their advantage.

You have suggested two proposals: to remove the threshold and collect GST and duty on all imports; or alternatively, to exempt all goods sold in Australia that are less than \$1,000 from GST.

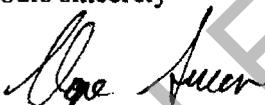
As discussed above, the level of the threshold was set balancing factors such as neutrality of means of entry, administrative simplicity and compliance costs. A low value import threshold (of varying levels) has been a longstanding feature in the importation of goods into Australia and to completely remove it would be impractical given the huge volume of low value goods imported into Australia every day.

Providing a GST exemption for all goods sold in Australia that are less than \$1,000 would significantly undermine the GST base by removing a very large number of sales from the GST net. As such it would involve a significant cost to revenue to the States and Territories. I note that under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* any change to the rate or base of the GST requires the unanimous support of the State and Territory governments. As such any proposal to change the level of the low value import threshold would require such approval.

While I appreciate this outcome is not what you are seeking, given the difficulties in changing the threshold outlined above, particularly the potential for increasing the administrative and compliance burden, I consider that the current arrangements remain appropriate.

Thank you for taking the time to bring this issue to my attention.

Yours sincerely



WAYNE SWAN

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