Australian Government
Australian Customs and Border Protection Service

Proposal to Reduce the Low Value Import Threshold – Customs and Border Protection's comments

Key points

1. All imported goods, regardless of value, are assessed for duty and tax liabilities. Imported goods are those that arrive as cargo by air, sea or post. It does not include goods accompanying passengers.
2. The low value import threshold determines whether goods imported into Australia are liable for customs duty and Goods and Services Tax (GST), and is set down in legislation. (*Attachment A provides a brief description of current import processing arrangements*)
3. The current threshold was standardised to A$1000 in October 2005 and 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.
4. The harmonisation of the threshold promoted a significant reduction in 'red tape' for a large number of importers and other stakeholders involved in the importation of low value goods. It means items arriving by all modes of transport are treated in the same manner resulting in a transparent method of calculating customs duty and GST.
5. The Australian Customs and Border Protection (Customs and Border Protection) understands that industry groups in Australia have called for a review of the current threshold to relieve the 'uneven playing field' that exists because there is no GST or duty imposed on goods valued under the threshold.
6. Lowering the threshold to capture more imported goods within the 'duty and GST liability bracket' would impose significant costs on importers and all agencies and businesses involved in the importation of goods.
7. 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.
8. 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.
9. Customs and Border Protection notes that as there has been no increase in the threshold since 2005, the competitive neutrality issue in relation to revenue liability has reduced over time in real terms.
10. Any review of the threshold must ensure that these arguments are again fully considered, and balanced against the perceived disadvantage for Australian business.

The impact of a change to the low value goods threshold

11. The benefits from, and the effectiveness of, the equilibrium between the entry requirements for postal and non-postal goods is clear, and any changes to the threshold needs to maintain this equilibrium. That is, the full declaration that currently applies to imports over A$1000 would, in future, apply to all non-postal imports over a new, reduced threshold. We

note that, wherever the threshold is set, postal items will continue to be assessed on lesser information attached to the goods.

It is difficult to identify a precise costing model because data on the values of individual items below the threshold and their distribution is difficult to assess. Customs and Border Protection would need time to conduct a sampling exercise to provide an accurate model. For the purposes of a quick estimate, we have applied an assumption that a new threshold might be set at A$500. We stress that all cost estimates are very rudimentary, at this stage. We are unable to estimate revenue impacts.

12. Administrative and Compliance Costs

Customs and Border Protection processes a significant large number of imports per year. The current volumes are as follows:

Cargo Volumes (Air and Sea Cargo) for 08/09 and 09/10 financial year

Cargo Volumes	08/09	09/10
Air Cargo (consignments)	9,849,485	11,228,156
Sea Cargo (TEU[1])	2,221,715	2,358,496
s47 [redacted]	s47 [redacted]	s47 [redacted]

No of import declarations lodged	3,018,983	3,182,761
No of Self-Assessed Clearance (SAC) declarations lodged	7,168,182	7,778,900

a) Increase in Resources for Processing International Mail

Where a postal article is assessed as not being correctly valued, and requiring duty and GST paid, a manual process occurs. The payment must be made by the owner of the article or their agent at a post office counter. We are unable to assess accurately assess the increase in articles above a A$500 threshold, but believe that it could be a significant, increase over the current workload. 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. (The table below shows current volumes and revenue collected in the International mail stream).

International mail figures for 08/09 and 09/10 financial year

Item	08/09	09/10
s47 [redacted]	s47 [redacted]	s47 [redacted]
s47 [redacted]	s47 [redacted]	s47 [redacted]
No of postal declarations reported in the ICS	22,134	19,314
No of postal declarations manually processed by Customs and Border Protection	15,093	13,340
Amount of revenue collected	AUD$6,802,632	AUD$5,722,939

It is currently estimated that it takes Customs and Border Protection up to 45 minutes 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 of Customs and Border Protection resources.

This increase would have a significant impact on the number of invoices, declarations and payments documentation mailed out to importers to explain the procedures they need to follow. Importers would then be required to lodge declarations with Customs and Border Protection and make payment before the parcels are released to the carrier for delivery.

Detaining a significant percentage of postal articles for revenue purposes would present major logistical challenges for Customs and Border Protection and Australia Post. The lower

[1] TEU represents twenty-foot equivalent units

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

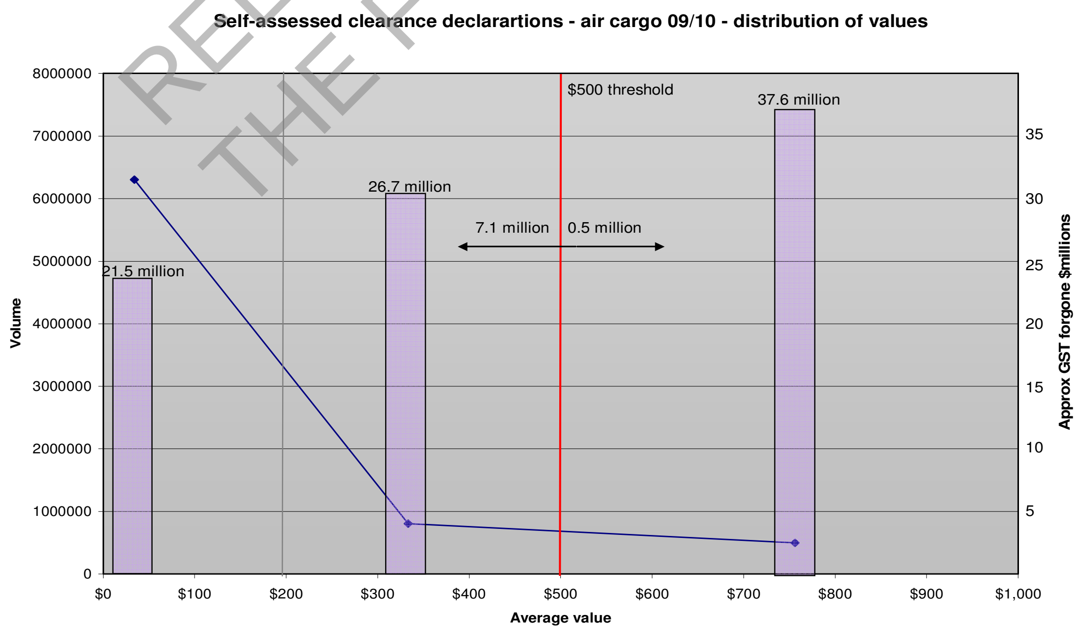
A reduction in the threshold would also mean an increase in valuation issues in respect of low value low risk goods. These goods provide small revenue yields but would still divert border screening resources away from the targeting and interception of higher risk importations. The volume that would need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

b) 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.

Analysis of current volumes of self-assessed clearances[2] in the air cargo environment indicates that 7% have a reported value over $500 (the estimated average value of $756).

Financial Yr 09/10	Sum of Declared Value Australian Dollar Amount	No of Air Cargo Reports Self Assessed Clearances (Clear Cargo Status)
Threshold (less than or equal to) AUD $1000	$858,672,634.22	7605425
Threshold (less than or equal to) AUD $500	$482,566,536.78	7108267
Threshold (less than or equal to) AUD $200	$215,074,103.66	6306143



[2] This does not include cargo imported and reported under the Special Reporter Scheme.

c) Impact on the Integrated Cargo System (ICS)

The ICS 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 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.

It is recommended that with a reduced threshold of $500, a simplified web-based system solution for clearance and payment of goods under the set threshold, should be introduced.

d) 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 A$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 workload figures are as follows:

Item	**08/09**	**09/10**
No of inbound calls	270 574	259,814
No of outbound calls	122,146	87,847
No of emails and faxes	42,075	70,081

e) Impact on Client Services

A reduction in the low value import threshold would affect private 'one-off' importers who 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 may result in increased wait times and lengthy queues.

13. Implications for Importers.

A reduction in the low value import threshold would have significant implications for importers of low value goods.

- 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. If duties, taxes and processing fees were applied to lower value transactions there would be significant disquiet from the general public, who would not only be required to pay the duties and taxes, but also, more significantly, the unexpected additional processing charges and brokers' fees, which would commonly total A$200 and $300 per consignment.
- Private 'one-off' importers importing goods above the new threshold, would either need to engage a Customs Broker or utilise the Customs and Border Protection's client services facility to manually lodge import declarations to clear their goods. As previously mentioned, It can take up to 45 minutes to process a single item.
- Lowering the threshold would most likely result in a behavioural response by private importers to ensure their importations did not exceed the threshold, rather than increasing local sales, as hoped by industry groups calling for a review of the current threshold.

- Under a lower value import threshold, the administrative cost of processing an import would in many cases exceed the tax and duty revenue collected, and even the cost of the goods themselves.
- We have assumed that the Conference of Asia Pacific Express Couriers (CAPEC), which handles 70% of air cargo consignments, would continue to pay on behalf of its customers at the time of importation and recover the cost after the event. This business model could be unsustainable if volumes and revenue liability significantly increase. If CAPEC abandoned its current model, there would be additional costs to importers.

14. Impact on Industry groups.

Customs and Border Protection would strongly advise that industry groups involved in the movement of cargo to Australia (particularly air cargo express couriers) be consulted when considering revising the threshold level. A reduction in the threshold is likely to result in industry needing 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.

In addition to the increased processing cost, a reduction in the threshold would result in a need for high volume air cargo carriers to expand the dead houses within licensed depots for secure storage of abandoned goods.

15. A potential option to offset administrative and importers' costs

We could explore the potential for online payment of duty and GST on low value goods. The significant increase in the number of imports in the postal environment effected by the lowering of the import threshold could be processed more effectively through the introduction of an e-commerce solution. While this would reduce the requirement for manual processing of declarations and payments, and the delays (and storage) incurred while the manual process takes place. It would not remove the manual process of identifying and assessing postal imports.

This would have particular benefits for one–off importers, allowing them to provide sufficient information to Customs and Border Protection to allow the revenue liability for the goods to be calculated without incurring large administrative and processing costs. Existing payment options would be utilised.

The cost of this option is estimated to be between $3 and $10 million. It is expected that the introduction of any IT based solution would decrease the number of Customs and Border Protection FTE required to implement the reduced threshold.

This solution may be also be leveraged to simplify the process for unaccompanied personal effects

We could also explore the potential for streamlining and increasing the convenience of the system by arranging for Australia Post to undertake processing and collection on behalf of Customs and Border Protection. To maintain the competitive neutrality with the air courier industry, this would need to include a requirement for Australia Post to identify and report to Customs and Border Protection all articles with a duty and GST liability.

Attachment A

Customs and Border Protection Cargo Clearance Process

Imported goods with a value at or below A$1000 that arrive by air or sea cargo require a self-assessed clearance (SAC) declaration to be lodged with Customs and Border Protection. There are no Customs and Border Protection charges for making a SAC declaration. Goods with a value at or below A$1000 that arrive by post do not require a SAC declaration.

A special reporting scheme exists to import air cargo with goods valued under A$1000. Known as the Special Reporter Scheme, this allows abbreviated reports to be provided by authorised parties.

If imported goods are valued above A$1000 and arrive by post, air or sea cargo, in most cases, the importer will be required to make an import declaration. An import declaration is a statement made to Customs and Border Protection providing information about imported goods that is used to assess the goods for duty, GST and other taxes and charges.

An import declaration requires goods to be classified to the Tariff as well as 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 import declaration, 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, an employee of an importer or a licensed Customs broker may lodge a import declaration with Customs and Border Protection

All information reported to Customs and Border Protection is used to assess cargo and goods for indicators of risk and to monitoring compliance with import requirements. Where risk is suspected or compliance checks are undertaken, this may result in document audits or real time physical intervention.

Customs and Border Protection uses intelligence from a range of sources to target and profile individuals or cargo to assess risks and monitor compliance with import requirements. The agency also analyses detections in order to enhance risk profiles for individuals and countries to assist to continuously improve compliance efforts.

Summary of Import Process

1. Goods to be imported may be carried to Australia on ships and aircraft or arrive by international mail and in some case by other means (e.g. pipeline).
2. The cargo destined for Australia is reported into the Integrated Cargo System (ICS) by authorised reporters in the supply change
3. Information supplied in cargo reports is subject to risk assessment in the ICS Cargo Risk Assessment (CRA) module
4. Cargo that match profiles are held and evaluated, examinations may take place.
5. Together with a cargo report a SAC declaration may be made, with a very minimum data set (name and address of importer, description of goods and value). Certain low value goods cannot be reported in this manner.
6. Before or when goods arrive in Australia SAC declarations (must be lodged electronically by anyone who holds a digital certificate) and import declarations can be lodged by the owner of the goods or a broker.
7. Declarations of either type must match a cargo report unless they are for goods arrive by international mail or other means (e.g. pipeline).
8. Declarations of both types are processed through the CRA module and profile matches set holds against the goods and the matches are evaluated, cargo exams scheduled and/or documents are requested.
9. If there are no holds in place, or if holds are lifted then goods on SAC declarations are cleared and available for delivery and import declarations are available for payment.
10. When payment is received (for duty taxes and charges) an import declaration is finalised and the goods are then available for delivery.

Attachment B

Departmental Costings – Changes to low value import threshold to $500

As previously mentioned, it is difficult to identify a precise costing model because data on the values of individual items below the threshold and their distribution is difficult to assess. Customs and Border Protection would need time to conduct a sampling exercise to provide an accurate model. For the purposes of a quick estimate, we have applied an assumption that a new threshold might be set at A$500. We stress that all cost estimates are very rudimentary, at this stage. We are unable to estimate revenue impacts.

1. Option A (without an IT solution)

	2011-12	**2012-13**	**2013-14**	**2014-15**	**4 Year total**
Total Employee Costs	5,977,751	6,048,169	6,113,428	6,179,392	24,318,740
Total Supplier Costs	3,532,818	3,610,199	3,658,811	3,708,196	14,510,024
Total Departmental Expenses	**9,510,569**	**9,658,368**	**9,772,240**	**9,887,588**	**38,828,764**

Employee Costs
In order to facilitate an option without an IT solution there will be an increased cost to employees as result of the additional manual processing. Currently this is estimated at 85 FTE per year.

Supplier Costs are based on the number of staff required for the manual processing and the on-costs associated with these additional FTE. This also includes a component for overtime allowances for staff processing as per the current collective agreement.

2. Option B (with an IT solution)

	2011-12	**2012-13**	**2013-14**	**2014-15**	**4 Year total**
Total Employee Costs	4,397006	4,448802	4,496805	4,545325	17887938
Total Supplier Costs	2,571726	2,608467	2,642680	2,677422	10500296
Total IT solution	5,500,000	3,000,000	*750,000*	*750,000*	*10,000,000*
- *Capital*	*3,500,000*	*2,000,000*			
- *Operating Costs*	*2,000,000*	*1,000,000*	*750,000*	*750,000*	
Total Departmental Expenses	12,468,732	10,057,269	*7,889,485*	*7,972,747*	*38,388,234*

Employee Costs
In order to facilitate an option without an IT solution there will be an increased cost to employees as result of the additional manual processing. Currently this is estimated at 60 FTE per year.

Supplier Costs are based on the number of staff required for the manual processing and the on-costs associated with these additional FTE. This also includes a component for overtime allowances for staff processing as per the current collective agreement.

Capital Costs includes new functionality linking to the ICS and represents internally developed software costs components.