From: OPOKU Naa
Sent: Tuesday, 2 November 2010 14:23
To: 'Piper, Sue'
Cc: PITMAN Sue; VIVIAN Raelene; MAJOR Sarah; EVANS Sue; PETTREY Julie
Subject: Proposal to Reduce the Low Value Threshold - Customs and Border's comments ~~[SEC=IN-CONFIDENCE]~~
Importance: High

Dear Sue,
Please find attached Customs and Border Protection's response to the questions below. The questions you have raised have led us to think about alternative models for reporting and charging on these goods. To properly explain what this might mean, as a better alternative to increasing regulation of low value items. We would like to meet with you to talk through the issues.

In response to your questions Customs and Border Protection can provide the following:

1. What are employer costs, supplier costs and departmental costs?

Attachment B of our submission outlines the Departmental costings and only provides some explanation of what the relevant costs are. Additional costs would be incurred by transport and logistics providers, Australia Post and potentially, AQIS. Further work with these parties would be required to estimate these other costs. Such costs may include, for example, storage costs for industry.

2. Capital presumably covers the cost of the IT system which would take 2 years to set up?

Yes

3. When would it be operational?

At the end of the 2 years.

4. All the numbers are incredibly precise which might give a false impression of accuracy, so would it be OK to round them?

These indicative figures have been generated using our internal costing template, however we have no objections to the figures being rounded.

5. Would the increase in the processing fee collection offset some of the departmental costs in the table, or are these additional costs above and beyond what would be collected through the import processing charge?

There is an important distinction between the current Import Processing Charge (IPC) which applies when a Full Import Declaration is lodged with Customs and Border Protection, and a 'processing fee' that could be applied to low value goods.

The Import Processing Charge (IPC) is a tax that is not linked to appropriations and is returned to consolidated revenue. Customs and Border Protection notes that the IPC does not cover all Departmental costs in processing imported goods. Any proposal to apply the IPC to a revised threshold for low value goods would require a growth factor to be applied to that charge. Funding would also be required to cover Customs and Border Protection additional Departmental costs.

No processing fee (separate to the IPC) is currently applied by Government. If a processing fee (ie not a tax) is proposed, then Customs and Border Protection would require additional time in order to determine the appropriate value of that fee, relative to Departmental costs resulting from a change in the low value threshold. The current legislative arrangements for IPC would also need to be amended.

The Customs Act exempts all imports (including postal articles) from the requirement to lodge a formal entry (that is, a full import declaration) for goods valued under the threshold. Where postal goods exceed the threshold, importers will often seek the assistance of Customs and Border Protection (either through the Client Services Counters, or the Customs Information and Support Centre) to complete a postal import declaration. Any increase in demand for this service as a result of lowering the threshold will have resource implications, both in terms of administration costs, and in ensuring compliance with reporting requirements.

Customs and Border Protection does not support the requirement for a full import declaration to clear low value goods. Paragraph 13 of our submission discusses the significant impact full reporting would have on private importers of low value goods. This impact is expected to be out of proportion to the relatively minor amounts of revenue collected for this group. A requirement for full import declarations to be completed may also lead to private importers needing to engage a broker, and incurring substantial additional costs in the process.

Consistent with the Government's de-regulation agenda and the need to ensure the reporting burden on private importers of low value goods is not disproportionate, we would suggest an alternative solution is considered. It may be possible to extend the current arrangements applied by CAPEC members and other industry brokers. Under these arrangements:

- For many postal goods above the threshold, a Postal Import Declaration is completed manually by the importer and often with the assistance of staff at the Client Service Counters and Customs Information and Support Centre). Only a minority use the services of a broker who generally pays any duty and GST on behalf of the client. These costs are subsequently recovered from the client, with the client also charged a fee for the service. (In the air and sea cargo domains, a similar arrangement applies, with the broker submitting a Full Import Declaration on behalf of their client.
- For low value goods imported via air and sea cargo, the broker electronically submits a Self Assessed Clearance (SAC) declaration on the client's behalf (a SAC does not require specification of a tariff code applicable to the imported goods). However, a SAC is not required for low value goods in the postal stream. No duty or GST is collected for low value goods (other than for alcohol and tobacco), as goods below the threshold do not attract taxes and charges.

It may be possible to seek to extend this arrangement to Australia Post (AP); with AP submitting an appropriate declaration for goods above the threshold, and ensuring duty and GST is paid by the client. However, Australia Post does not currently have an appropriate electronic reporting capacity (currently, import declarations are lodged in the ICS by Customs and Border Protection on behalf of clients using AP). Therefore a significant reporting mechanism would be necessary.

This option would be more convenient for importers, as they could access the wide Australia Post network to lodge and pay (compared to having access to only six (6) Customs and Border Protection Client Services Centres, nationally).

Furthermore, given that changes to the low value threshold are being considered in response to an increase in on-line ordering of goods from overseas, it would not appear to be appropriate to require importers to manually lodge documents for goods ordered on-line. Accordingly, this option would require development of an on-line capacity within AP, or within Customs and Border Protection. A 'processing fee' could then be charged for this service. It should be noted however, that the processing fee may exceed the value of the duty and GST payable on the goods imported, in some cases. Appropriate arrangements for the collection of duty and GST would also need to be considered.

A processing fee may also have other, unintended consequences and will require further, careful consideration. For example, we would need to consider how any processing fee would apply in circumstances where the importer is able to claim concessional treatment (such as for the importation of personal effects).

6. Minor edits made to your text below

We believe that it would be of considerable value for officials from Customs and Border Protection and Treasury (and potentially, the ATO) to meet and discuss other options that could be considered. The information provided above contemplates an approach to administering a lower threshold, within the existing framework. It may be possible to develop alternative, more efficient and effective solutions to meet the Government's policy objective in the longer term, but which would require changes to existing legislation and business processes. We would also like the opportunity to gain a better understanding of Treasury's revenue projections arising from any change to the low value threshold, and the basis on which they have been made.

Kind regards

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From: Piper, Sue [mailto:Sue.Piper@TREASURY.GOV.AU]
Sent: Sunday, 31 October 2010 23:02
To: OPOKU Naa
Subject: FW: update- Proposal to Reduce the Low Value Threshold - Customs and Border's comments ~~[SEC=IN-CONFIDENCE]~~

Further on this, this is where I am at the moment on this bit. It's in a section on the $500 threshold costing.

Customs and Border Protection Service have prepared indicative departmental impacts from reducing the low value threshold to $500. They estimate possible additional departmental costs (comprising employee, supplier and the cost of an IT solution) of around $38.8 million over the forward estimates commencing 2011-12. If an IT solution was developed to try to streamline the collection of duties and taxes for imports including goods consigned through the post, valued over $500, departmental costs are estimated to be around $38.3 million over the same period. The slightly lower cost reflects a reduction in employer and supplier costs being less than fully offset by the increased costs of the departmental capital associated with the delivery of an IT solution.

s22(1)(a)(ii) [redacted]

s22(1)(a)(ii) [redacted]

Sue Piper
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From: Piper, Sue
Sent: Sunday, 31 October 2010 8:17 PM
To: 'OPOKU Naa'
Subject: RE: Proposal to Reduce the Low Value Threshold - Customs and Border's comments ~~[SEC=IN-CONFIDENCE]~~

Thanks Naa
I will call you on Monday to run through how we are going.
I have a query about attachment B-which contains the departmental costings. There are no words describing this table so I don't know what to say about it. What are employer costs, supplier costs and departmental costs? Capital presumably covers the cost of the IT system which would take 2 years to set up? When would it be operational?
All the numbers are incredibly precise which might give a false impression of accuracy, so would it be OK to round them?

Would the increase in the processing fee collections offset some of the departmental costs in the table, or are these additional costs above and beyond what would be collected through the import processing charge?

Colin's people have tried to estimate the customs processing fee revenue as well as the customs duty and have assumed average $50 cost per declaration.

Have you got any indication of compliance costs, or is the import processing fee the best measure of this?

Thanks

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From: OPOKU Naa [mailto:naa.opoku@customs.gov.au]
Sent: Friday, 29 October 2010 5:07 PM
To: Piper, Sue
Cc: PITMAN Sue; VIVIAN Raelene; MANN Neil; MAJOR Sarah; NERMUTOVA Suzanne; BUCKPITT Jeff; PETTREY Julie; FURSE Dale
Subject: Proposal to Reduce the Low Value Threshold - Customs and Border's comments ~~[SEC=IN-CONFIDENCE]~~
Importance: High

Sue,
Please find attached Customs and Border Protection's comments regarding the proposal to reduce the low value import threshold.
As discussed, 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. If you require clarification on information provided, please don't hesitate to contact me.

Customs and Border Protection would appreciate a copy of the final minute to the Treasurer.

Will give you a call on Monday to discuss the other questions you have raised. Have a great weekend!

Kind regards

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