



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

## **Enhanced Compliance arrangements around the collection of GST revenue in relation to the low value threshold**

### **Key points**

1. Customs and Border Protection takes an intelligence-led, risk-based strategic approach to managing the border. Interventions are focused on high risk goods backed up by assurance and campaign approaches designed to confirm our intelligence and alert us to emerging risks. Customs and Border Protection resources are prioritised towards detecting high risk goods that have significant threat to human health and safety such, as narcotics, firearms and weapons.
2. Consistent with this risk based approach, in recent years Customs and Border Protection has adjusted its mix of compliance strategies to ensure that we address the broad range of risks, at a level commensurate with the risk presented. Customs and Border Protection undertakes less cost-intensive activities where there is a low return to revenue, for example, as a result of lower levels of undervaluation and other non-compliance with the low value threshold. For low value imports generally, monitoring finds a very low rate of non-compliance (0.7%). Within the broad range of risks, therefore, low value revenue presents a low relative risk. Data from targeted revenue compliance activity around low value imports indicates that for targeted imports the non-compliance level is low (6%).
3. Customs and Border Protection also has regard to the return on investment from cost-intensive follow up activities required to deal with minor, generally one-off underpayments.
4. An enhanced compliance program for air and sea cargo, and international mail would be required to provide greater assurance that current usage of the low value threshold is generally claimed legitimately. An enhanced program would also provide further evidence on the use of the low value threshold by Australian businesses that, whilst lawful, may not reflect the Government's policy intent.
5. Any increase to compliance program activity will require a commensurate increase in resources. Without additional funding, implementing such a program would require re-direction of limited resources from detecting high risk goods such as narcotics, to activities associated with collecting a relatively small amount of revenue on low value imports.

### **Current Compliance program on risks posed by the low value threshold**

#### *Sea and Air Cargo Compliance*

6. Our approach to risk assessment and the allocation of resources endeavours to ensure that the focus of our efforts is on the issues of highest risk.
7. In 2009, the Australian Government agreed to a risk-based approach to cargo intervention and during 2010, Customs and Border Protection returned savings to the Budget from its revenue compliance function through rebalancing our approach, by better targeting our cost-effective pre-clearance interventions and non-compliant behaviours at the border, supplied by monitoring on a sampling basis, significantly reducing the number of intensive company audits. This has enabled us to examine a broader range of transactions and risks, within which the low value transactions represent relatively low risk for both revenue and other border-related

issues (e.g. weapons, community safety). Similarly, the vast majority of entities involved (private citizens) present a low risk.

8. Importers or their agents submit a self assessed clearance (SAC) declaration at the time of importation. In the pre-clearance environment, as part of our overall program we target for compliance assessment. To the extent that the description of goods in a SAC is not as accurate as for a high value import, our capacity to assess the revenue is constrained in high volume environment. The follow-up activity to recover smaller amount of underpaid duty and GST is cost intensive. The information requirements for completing SACs are minimal. Tariff classifications, which are used on import declarations to identify high risk goods (for imported goods above the threshold), are not required. Physical examinations resulting from any targeting activity are also minimal.
9. During the past two quarters (April to September 2010), over 4.4 million, SACs were lodged with Customs and Border Protection.
  - Out of that total, 40,168 SACs were assessed for revenue risk in the pre-clearance environment. This represents less than 1 percent of all SACs lodged during that period.
  - This assessment resulted in 1,959 detections of non-compliance with revenue requirements, and collection of \$190,298.26 in duty, \$499,653.57 in GST and \$1,006,865.28 in deferred GST.

*SACs targeted for assessment against revenue risk, April – Sept 2010*

Month	Targeted no. SACs evaluated	No. positive for revenue	Percentage positive for revenue	Duty collected A\$	GST collected A\$	Deferred GST A\$
April	2432	134	4%	17,978.53	113,557.76	77,111.52
May	2546	188	7%	21,880.31	76,908.54	53,237.99
June	2467	142	6%	66,669.02	99,161.82	228,360.70
July	2593	149	6%	26,263.29	58,310.80	70,606.90
Aug	3053	191	6%	30,837.14	66,076.48	337,361.39
Sept	2864	151	5%	21,512.30	73,902.48	234,910.39
<b>Total</b>	<b>33,632</b>	<b>1,910</b>	<b>6%</b>	<b>185,140.59</b>	<b>487,917.88</b>	<b>1,001,588.89</b>

*SACs selected randomly for assessment against revenue risk, April – Sept 2010*

Month	Random no. SACs evaluated	No. positive for revenue	Percentage positive for revenue	Duty collected A\$	GST collected A\$	Deferred GST A\$
April	1175	12	1%	748.23	1749.47	1121.72
May	1051	9	0.8%	1,1497.45	1,453.37	3,535.61
June	1005	6	0.6%	1,312.26	3,3130	291.22
July	1067	8	0.7%	917.83	2,006.08	0
Aug	1138	6	0.5%	354.72	2,226.71	0
Sept	1100	8	0.7%	327.18	1,169.31	327.84
<b>Total</b>	<b>6,536</b>	<b>49</b>	<b>0.7%</b>	<b>5,157.67</b>	<b>11,735.69</b>	<b>5,276.39</b>

*International Mail Compliance*

10. During 2009/2010 financial year, Customs and Border Protection processed 142.96 million international mail consignments. Goods imported via international mail and valued below \$1,000 are not electronically reported or declared to Customs and Border Protection. As a result, these goods are generally cleared very quickly, providing they do not contain prohibited or restricted goods requiring an import permit, and are not alcohol or tobacco products.
11. Goods declared or assessed to be over \$1000, or consignments containing alcohol or tobacco, are held until duty and GST are paid. The assessment of the value of the goods is generally based on the value on the import declaration. Limited verification is undertaken to determine if the declared value is correct; generally this will only occur if it is obvious to a

Customs Officer that the value of the goods is likely to exceed the amount declared on the import declaration. The vast majority of declarations for low value goods are taken at face value.

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

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

12. s47 These consignments resulted in importers lodging 19,314 import declarations (13,340 lodged manually by Customs and Border Protection) and resulted in a total revenue collection of \$5,722,939.

**Enhanced Compliance program on risks posed by the low value threshold**

13. Providing additional resources are allocated, Customs and Border Protection could enhance its revenue compliance activity in the sea, air cargo and mail streams, with a focus on targeting and assessing undervaluation of goods claimed to fall below the threshold. Due to current budget pressures, this additional activity could not be absorbed within existing organisational resources without requiring redirection of current activity in respect of other, significantly higher risk goods.

*Sea and Air Cargo Compliance*

14. An enhanced Sea and Air Cargo Compliance program could include;
- The creation of risk analysts positions to assess the revenue risks raised by the low value threshold, identify recidivists and targets for pre-clearance intervention activity.
  - An increase in pre-clearance intervention officers to assess self assessed clearances.
  - An increase in physical examinations, including valuation decisions, of high risk self assessed clearance consignments.
  - An increase in the information available to be shared between the Australian Taxation Office (ATO) and Customs and Border Protection. Such information would be dealt with through the normal channels and intelligence sharing arrangements presently in place within the ATO. The additional intelligence resulting from increased Customs and Border Protection activity, along with other intelligence gathered on this matter, will enable the ATO to assess the level of risk and determine appropriate strategies.
  - The exploration of options for system enhancements, to support more effective targeting for non-compliance. (E.g. enhanced data extraction and analytics tools).

*International Mail Compliance*

An enhanced compliance program could also be implemented in the international mail stream. As minimal revenue compliance activity is currently undertaken, the implications and costs of enhancing compliance in international mail are relatively unknown.

Additional costs associated with validation of the value of mail consignments would include;

- The potential additional workload and time taken to open additional mail consignments, verify price paid, or to have the goods valued;
- Increased storage requirements for Customs and Border Protection and Australia Post for an unknown number of consignments, whilst true value is determined; and
- Delaying the release of low value mail consignments while compliance activity is undertaken.

Given that the implications and costs of an enhanced compliance program in the international mail stream are unknown at this stage, Customs and Border Protection proposes that targeted campaign activity be undertaken in the international mail gateways.

This activity will allow Customs and Border Protection to obtain evidence of the likely level of risk, would inform what level of compliance activity that is warranted.

If, as a result of this process, it is determined that likely revenue risk is not tolerable, a budget proposal could be advanced in the 2011/2012 budget process.

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