

# Response to Low Value Parcel Processing Taskforce's Recommendations

## RECOMMENDATION 2.1

*The Australian Government, through its membership of international organisations and agencies, such as the WCO and UPU, advocate for, and support, appropriate initiatives with respect to the provision and development of electronic data interchange in the international mail stream.*

### Agreed

The Australian Government and Australia Post are engaged in ongoing discussions at the Universal Postal Union about electronic data interchange proposals. These are likely to take some time to evolve. The availability of useful electronic data is a critical component for implementing many of the recommendations put forward by the Taskforce. Without it, a more efficient processing model for low value imports of goods, including GST collection, may be hard to realise.

## RECOMMENDATION 3.1

*While recognising that, at this stage, data and systems limitations preclude the mandating of duty and/or GST collection from financial intermediaries, ongoing consideration should be given to initiatives of this nature that may facilitate the collection of duty and/or GST in the future.*

### Noted

The Government will examine this option further alongside other reforms proposed in the report, having regard to technological improvements in this area.

## RECOMMENDATION 3.2

*That the option of deferral of payment of GST for all GST registrants, while not supported at this time, should be considered further going forward. The proposal requires further research on the administrative benefits for Customs and Border Protection relative to the compliance costs to businesses.*

### Noted

The Government will consider an expansion of the GST deferral scheme should there be any significant reduction in the threshold. In developing its view it will take into account the potential consequences for the revenue.

### RECOMMENDATION 3.3

*That given the complexity of duty arrangements, combined with the trend for duty rates to be lowered and/or abolished in the future, duty and GST low value thresholds be separated to facilitate a more efficient process for handling low value imports, including an option for revenue collection.*

#### Agreed

While recognising the role of customs duty in industry policy, the Government notes the complexity of applying customs duty to low value imports due to the absence of sufficient information and systems to establish tariff classifications. The Government therefore agrees that in the first instance any reduction in the low value threshold would be for GST only.

The Government will introduce legislation to separate the low value threshold for GST purposes and the threshold for customs duty. The threshold for GST will be included in the GST legislation and, while initially set at the current level, will be able to be varied to reflect any decision to lower the threshold.

The threshold for customs duty will remain at \$1,000 until such time as sufficient data and systems necessary for efficient and effective customs duty assessment become available.

### RECOMMENDATION 3.4

*That to facilitate revenue collection, simplified GST assessment arrangements be applied to low value imported goods that would provide, inter alia:*

- (a) for assessment based on value (not including transport and insurance costs). If this is not acceptable, then deemed amounts should be able to be applied (with capacity for importers to apply specific rates if desired); and*
- (b) for processes that enable the use of a declared value of the goods in the first instance, subject to relevant compliance measures.*

#### Agreed in principle

The Government supports simplified assessment arrangements applying to any goods valued below \$1,000 in the event that the threshold is lowered. These details of these arrangements will be determined as part of developing possible implementation plans for responses to reforms proposed in this report.

## RECOMMENDATION 4.1

### General

*That reform to the handling and administration of low value goods, incorporating a new option to collect revenue, would best be achieved through the application of simplified GST assessment arrangements for low value imported goods between a separate low value GST threshold set above \$0 and below \$1,000. This would require modifications to existing processes, including:*

- (a) reconfiguring the systems to enable data capture and the simplified assessment of GST through reporting and clearance processes in the cargo environment, pre-arrival data exchanged electronically by Australia Post and Customs and Border Protection and data manually captured by Australia Post in international mail gateways;*
- (b) requiring Australia Post, express carriers and other freight forwarders to be responsible for collecting and remitting the revenue liability;*
- (c) permitting clearance of goods from licensed depots or the international mail gateways – on an opt in basis – prior to revenue liabilities being met (subject to financial guarantees being in place from the relevant cargo or postal entities). Entities would be permitted to incorporate their collection costs into any direct or indirect charges imposed on importers; and*
- (d) making ancillary changes to cater for increased numbers of business GST deferrals, more compliance activities and processing of claims with respect to GST exemptions. Modifications would be based on the functional elements set out in Figures 4.3.1 and 4.3.2, which detail the process changes for both the cargo and postal environments. Further details of business requirements are set out in Appendix D.*

*A Steering Committee consisting of senior representatives from Customs and Border Protection, the ATO, DAFF Biosecurity, CAPEC, Australia Post, and a representative from the States and Territories would be needed to oversee the development and implementation of these change processes.*

### International mail environment

*To further enhance the handling and administration of low value goods, complementary reforms could be undertaken in the international mail environment to establish more consistent reporting and import clearance processes across import streams. This would primarily be achieved through the use of pre-arrival electronic data to streamline border agency processes to allow more targeted, risk based assessment over time.*

*Together with the modifications required for revenue collection, this approach would require:*

- (a) a redesign of the physical layout of international mail gateways;*
- (b) modifications of systems to capture and risk assess data provided by Australia Post in a manner consistent with current cargo reporting and clearance processes;*
- (c) development of system interfaces with Australia Post; and*
- (d) implementation of processes to manually capture value data to assess revenue liability for goods without electronic data (by Australia Post – possibly as delegate or agent of Customs and Border Protection).*

*A Steering Committee consisting of senior representatives from Customs and Border Protection, DAFF Biosecurity and Australia Post would be needed to oversee the development and implementation of these process modifications. The Steering Committee should be supported by select technical working groups responsible for providing detailed advice on the functional specifications and design parameters in the*

*following areas:*

- (a) ICT systems design; and*
- (b) business process design, including the physical layout.*

*Given the nature and complexity of the task, and the timeframes available, the costing of the proposed approach aims to provide a 'rough order of magnitude' of anticipated benefits and costs across a range of alternative scenarios. While this can guide the direction of policy development, it is not a business case for the reform proposed. In recommending the proposed approach as the most feasible, it is recognised that detailed business cases need to be prepared and approved before funding is allocated.*

## Agreed in principle

The successful implementation of simplified GST assessment arrangements for low value imported goods will be critical to reducing the costs of import processing to a level where a reduction in the low value threshold is cost effective. As the recommendation points out, the reform proposals are only a guide for the direction of policy development and detailed business cases need to be prepared and approved before a final decision regarding any possible reforms can be made.

Consistent with this, a decision cannot be made regarding the lowering of the threshold until these business cases and possible implementation plans for reforms to low value parcel processing have been prepared, and the costs associated with any possible changes have been determined.

The Government will examine these proposals further and, as appropriate, develop business cases and possible implementation plans in consultation with relevant stakeholders, including the Retail Council of Australia, Australia Post and CAPEC. Appropriate committee arrangements will be established in order to progress this work.

## RECOMMENDATION 4.2

*In order to streamline revenue collection on low value imported goods, a centralised system for pre-registration for direct debit could be established over time. Brief details of business requirements for the registration of direct debit reform are in Appendix D. System development includes:*

- (a) establishing an online registration web interface and software system;*
- (b) integrating the system with the ICS and other Customs and Border Protection systems, as well as industry business systems; and*
- (c) reconfiguring of the physical border facilities.*

*While this process change could facilitate a significant proportion of parcels moving quickly into the delivery stream depending on take up rates, its overall efficiency and cost effectiveness depends on the level at which a threshold is set.*

## Noted

The Government will consider this proposal in consultation with relevant stakeholders. While pre-registration for direct debit could facilitate more rapid delivery of goods (and reduce the need for their storage pending payment) it may be that there would be greater benefits in delivery agencies such as Australia Post, express carrier and freight forwarders operating pre-registration systems for their customers rather than a centralised system operated by a government agency.

## RECOMMENDATION 4.3

*To streamline revenue collection, legislative arrangements could be amended to enable and encourage appropriately regulated overseas suppliers to collect GST from purchasers of low value goods at the time of purchase.*

## Agreed in principle

The Government notes that involving overseas suppliers in collecting the GST due on low value imports could generate efficiencies for import processing by reducing the need for revenue collection at the border. However the report emphasises that this reform would only be effective as part of a broader range of range of reforms related to revenue collection at the border and not as a standalone reform. The Government will consider ways to progress this reform as part of any broader package of reforms which is implemented.

#### RECOMMENDATION 4.4

*Building on the culture of innovation and continuous improvement that exists between Customs and Border Protection, DAFF Biosecurity and industry participants in both the cargo and mail environments, in order to enhance the quality, efficiency and effectiveness of border clearance processes, the following actions could be taken to enhance existing processes, remove duplication and enable the measurement of resource utilisation and efficiency:*

- (a) remove the role of Australia Post in opening mail items in secondary examination in the international mail gateways;*
- (b) as pre-arrival data becomes available in the international mail environment, provide funding to support additional research into risk analysis and risk management, so border agency activities in the cargo and mail environments appropriately focus on risk-return outcomes; and*
- (c) facilitate future investment and resource allocation through developing and implementing additional performance criteria measuring the ongoing productivity improvements achieved by Australia's border agencies. The performance criteria could include, but not be limited to, the time taken to undertake inspection and examinations, as well as cross-border agency and cross-gateway performance measures.*

#### 4.4(a) & 4.4(c): Agreed in principle

The Government will look at removing the role of Australia Post in opening mail items in secondary examination in the international mail gateway.

The recommendations relating to performance criteria are consistent with existing work programs in gateways to ensure continuous improvement.

#### 4.4(b): Noted

The question of additional funding to support additional research on risk analysis and management will be considered as business cases and possible implementation plans for reforms are developed.

#### RECOMMENDATION 4.5

*To streamline duty collection processes, and to facilitate future reform, Customs and Border Protection systems could be modified to provide a web interface to enable completion of FIDs in the international mail environment. The effectiveness of these changes should be reviewed after three years, and periodically thereafter, to determine if they can be used further for a greater volume of goods.*

#### Noted

The Government recognises the increasing use of 'e-interfaces' as a mechanism for governments to communicate with individuals and notes that Customs and Border Protection are already exploring options in relation to this recommendation.

#### RECOMMENDATION 4.6

- (a) That border agency fees and charges should apply to goods valued below \$1,000 to which GST is applied (if any).*
- (b) That in setting the structure and level of border agency fees and charges for such low value goods, and to reduce cross-subsidies that currently exist, fees and charges applied or administered by Customs and Border Protection and DAFF Biosecurity be reviewed in accordance with Australian Government cost recovery guidelines. This will require Cost Recovery Impact Statements for import clearance processes for both Customs and Border Protection and DAFF Biosecurity, and potentially amendments to the Import Processing Charges Act 2001.*

#### Noted

The Government will give further consideration to this recommendation. In forming its view, the Government will carefully consider the impact of a lower threshold on consumers and business.

#### RECOMMENDATION 4.7

*Consequent to DAFF Biosecurity fees and charges being applied to low value imported goods with a GST liability and recognising that any fees and charges placed on Australia Post need to have regard to its ability to recover costs, that DAFF Biosecurity's charge to Australia Post be held constant until a Cost Recovery Impact Statement is undertaken for the mail environment in accordance with the Australian Government cost recovery guidelines, and current funding arrangements are reviewed.*

#### Noted

The Government will consider this, noting that if the Department of Agriculture, Fisheries and Forestry's current cost recovery arrangements are changed as a result of biosecurity reform, a Cost Recovery Impact Statement for relevant cost recovery arrangements will be prepared prior to implementing such changes.

#### RECOMMENDATION 4.8

- (a) That Customs and Border Protection undertake periodic testing to assess changes in the levels of undervaluation occurring in relation to low value imported goods.*
- (b) That a review of offence and penalty provisions in the Customs Act 1901 and the Taxation Administration Act 1953 be undertaken to ensure that they are appropriate having regard to the growth in low value imported goods and changed processes, including any separation in the thresholds for duty and GST.*
- (c) In conjunction with the introduction of any new process that results in a greater number of goods being assessed for revenue purposes, additional funding be provided to Customs and Border Protection to enable it to undertake additional compliance and enforcement activities. The level of funding to be provided will depend on the volume of goods to be assessed for revenue.*

#### Noted

The proposal will be developed further in conjunction with the implementation of responses to other reforms proposed in this report.

#### RECOMMENDATION 4.9

*That subject to appropriate privacy arrangements, access to additional pre-arrival postal and cargo data be used to facilitate enhanced ATO assessment of undeclared business activities.*

### Agreed in principle

The ATO would welcome additional information in this area to complement its existing focus on pursuing undeclared business activities, provided that it could be provided in a cost effective manner and in accordance with existing privacy safeguards.

#### RECOMMENDATION 4.10

*That to better inform State and Territory policy and investment decisions which they may make as the entities responsible for GST administration costs, annual reporting of GST outcomes by Customs and Border Protection, via the ATO, to the States and Territories could be enhanced through additional reporting of:*

- (a) item volumes, by value bandwidths (per \$100) where possible, over three years (the current year and two previous years) and projected growth in items for the next year, in volumes and percentages;*
- (b) item volumes, by value where possible, by percentage that have item level electronic pre-arrival data; and*
- (c) any changes in policy and practice that expand the availability of pre-arrival data in the international mail stream.*

### Noted

Customs and Border Protection has existing arrangements in place for the supply of GST data to the ATO, which administers the GST on behalf of the States and Territories, and would use these mechanisms to supply data to the States and Territories where practicable. The cost and value of any new reporting requirements will need to be assessed in partnership with the ATO.

#### RECOMMENDATION 4.11

*That information gathered through sampling exercises, current and future clearance processes, together with any additional information made available through the capture and use of electronic data in the international mail stream for low value goods, be supplied to the ABS for use in the preparation of the Australian National Accounts and other publications.*

#### Noted

Customs and Border Protection has existing arrangements in place for the supply of data to the ABS and would use these mechanisms to supply data where practicable. The cost and value of any new reporting requirements will need to be assessed in partnership with the ABS.

#### RECOMMENDATION 5.1

*That any implementation of reforms to the handling and administration of low value imports of goods, including an option for revenue collection, should ensure that:*

- (a) reforms with respect to the application of GST on low value goods be undertaken in conjunction with reforms to border processes in the international mail environment to enhance risk based assessment using pre-arrival data;*
- (b) reforms with respect to the application of GST occur in a staged manner having regard to the volumes of goods that need to be processed, the availability of data in the international mail stream and the costs associated with manual capture of data; and*
- (c) as the direct beneficiaries of any increase in GST revenue and the entities responsible for funding GST administration costs, the States and Territories are consulted with respect to any proposed reforms to the application of GST on low value imported goods.*

*No recommendation is made as to what threshold should apply with respect to a simplified GST assessment arrangement but it is recommended that due consideration be given to a staged introduction to ensure a smooth and efficient transition.*

#### Agreed in principle

The Government recognises that there is a strong case on tax neutrality and fairness grounds to lower the threshold as soon as practicable while limiting the compliance costs and burdens on Australian businesses and consumers who purchase products from overseas.

However, as the report makes clear, a number of key reforms need to be in place to enable a lower GST threshold to be introduced. If the threshold were lowered before these reforms were in place there would be major disruptions to the international mail and freight forwarding processes, with significant detriments to both businesses and consumers importing low value items.

Some of these reforms can be achieved at a modest cost by changing the legislative and regulatory environment, and the Government will pursue these as soon as possible. Others will require a significant level of investment.

As the report points out, detailed business cases need to be prepared and approved before a final decision regarding any possible reforms can be made.

Consistent with this, a decision cannot be made regarding the possible lowering of the threshold until these business cases and possible implementation plans for reforms to low value parcel processing have been prepared, and the costs associated with any possible changes have been determined.

The Government will undertake initial consultations with State and Territory governments, to determine what funding they would be prepared to commit should there be a decision to proceed with reforms to enable the lowering of the threshold. Any additional GST revenue will accrue to the States and Territories and not the Commonwealth; therefore it is appropriate that the States and Territories provide such funding.

The Government will progress the preparation of business cases and the development of possible implementation plans for reforms to low value parcel processing.

A final response to the Taskforce report, outlining the outcomes of these processes, will be released in 2013.