Regulation Impact Statement for the Government's interim response to the Low Value Parcel Processing Taskforce

1. This Regulation Impact Statement considers the Government's interim response to the final report of the Low Value Parcel Processing Taskforce, which undertook a comprehensive investigation of low value import processing, particularly in the international stream.

2. Goods and Services Tax (GST) and customs duty apply to most imports of goods into Australia. However, the Australian Customs and Border Protection Service (Customs and Border Protection) does not collect GST or duty on goods with a value at or below the 'low value threshold' of $1,000 (apart from alcohol, tobacco and bulk goods).

3. The Government has previously announced that if significant improvements were made to the handling of low value parcels, it would be in a position to reassess the appropriateness of the level of the threshold.

The problem or issues that give rise to the need for action

4. The purpose of the low value threshold is to reduce administrative and compliance costs for importers and Customs and Border Protection. If tax was assessed and collected on goods valued below the threshold importers, including consumers and small businesses, would incur a significant compliance burden under current arrangements. There would also be a significant cost to Government agencies which would outweigh the revenue collected.

5. However, the effect of the threshold is that significant revenue, particularly GST revenue, is forgone. Further, Australian suppliers of goods are placed at a competitive disadvantage. The anticipated gains in online shopping will exacerbate these problems.

6. In 2010-11 the number of parcels entering Australia under the current threshold was approximately 58 million (Commission, 2011, pg 183-186). This includes 48 million international mail items and 10 million air cargo parcels. In the international mail stream some 18,000 parcels were above the threshold and assessed for GST and duty. Direct comparisons in the air cargo stream are more difficult; however in the same period, 600,000 air cargo parcels were valued between $1,000 and $5,000 and hence assessed for GST and duty (Taskforce, 2012, pg 33).

7. In 2011, the Productivity Commission (the Commission) undertook an inquiry into the *Economic Structure of the Australian Retail Industry*. As part of this inquiry the Commission was required to consider the appropriateness of indirect tax settings in the retail sector, including the operation of the low value threshold.

8. In its examination of the threshold the Commission (2011, pg 188-191) considered the fundamental principle and objective of tax policy, which is to raise revenue in a manner that minimises costs to the community. One such cost is market distortion which occurs through tax being applied differently to similar transactions. At the margin, less efficient suppliers not subject to tax will be preferred over more efficient suppliers that are subject to tax. Applying this reasoning, the Commission described the low value threshold as a reverse tariff that distorts resource allocation in favour of international retailers over domestic ones.

9. In its final report, the Commission (2011, pg 214) recommended that there are strong in-principle grounds to significantly reduce the low value threshold; however this should not be done until it is cost effective to do so. Under current arrangements, removing the threshold would generate $600 million in revenue at a cost of well over $2 billion — with these costs being borne by consumers, business and government (Commission, 2011, pg 169).

10. These costs result from the expected large increase in the volumes of packages requiring assessment by Customs and Border Protection and processing by Australia Post and couriers at the border (58 million in 2010-11). The removal of the threshold would require all of these parcels to be assessed for tax, which would be unworkable under the current arrangements.

11. In brief, the current process for collecting tax from international mail items is as follows.

- International mail parcels arrive in Australia through a 'gateway', where items are screened.
- Revenue liability is determined from a physical assessment by Customs and Border Protection. Out of the 48 million total mail parcels, Customs and Border Protection physically checked approximately 21 million for revenue and other border risks (Taskforce, 2012, pg 72). When Customs and Border Protection identifies a parcel valued over $1,000 it refers the item to Australia Post.
- Australia Post enters details of the addressee into a computer system. This generates a letter informing the addressee that Customs and Border Protection requires a full import declaration (FID) for the parcel. FIDs are complex to complete and require specialised knowledge such as classification of the goods under the Customs Tariff Act. When the letter is received, the addressee completes the FID form and posts it to Customs and Border Protection.
- When Customs and Border Protection receives the completed FID form, it manually enters the information on the FID into the integrated cargo system (ICS), calculates the liability due and posts the addressee a notice that a liability is due and must be paid.
  - While this process is underway the good is physically stored by Australia Post in secure storage at the gateway.
- When the addressee has met their liability, the parcel is released for delivery by Australia Post.

12. The current system requires significant manual intervention by agencies involved in assessing revenue at the border. Packages must be physically assessed to see if any revenue is due. Where revenue is due, multiple letters must be sent before the liability can be paid.

13. Compliance with the current threshold is high, although some people may attempt to misuse the threshold by deliberately misstating the true value of their goods or by incorrectly describing them. While there are some instances of misstating the value, Customs and Border Protection do not have any evidence demonstrating widespread undervaluation of goods to avoid customs duty and GST liabilities. Customs and Border Protection (2011) undertook a three month campaign aimed at identifying non-compliance with the low value threshold in 2011. The campaign showed non-compliance rates within the general population of 0.1 per cent in international mail; and 2 per cent in air and sea cargo.

14. The current processes used to process goods at the border, designed to operate with a $1,000 threshold would be unworkable with a significantly lower threshold. The Commission (2011, pg 202) concluded that processing the large increase in expected volumes would not be possible with the existing facilities and staffing levels. Even without a change in the threshold, the Commission (2011, pg 184) was of the view that the process needs to be streamlined to adequately deal with the future increase in parcel volumes.

15. The Commission (2011, pg 214) recommended that an expert taskforce investigate new approaches to the processing of low value imported goods, particularly those in the international mail stream. The expert taskforce was to recommend a new process which would deliver significant improvements in handling. Once an improved process has been designed, the Government should reassess the extent to which the low value threshold could be lowered while still remaining cost-effective.

Low Value Parcel Processing Taskforce

16. In response to the Commission's report[1], in December 2011 the Government established the Low Value Parcel Processing Taskforce (the Taskforce) to undertake a comprehensive investigation of low value import processing, particularly for the international mail stream. The Government also said it would reassess the appropriateness of the low value import threshold when it received the report of the Taskforce. The Taskforce released an interim report on 30 March 2012 and the Government released the Taskforce's final report on 6 September 2012.

17. The final report found that there is no immediate solution to the problem of processing large numbers of low value imported goods in a way which would permit the cost effective collection of revenue. However, the report proposes a number of changes which can be made to the processing of parcels and revenue collection mechanisms, particularly in the international mail stream.

18. The main elements of the Taskforce's proposed reform are:

- increasing the use of electronic pre-arrival data to assess revenue and border risk;
- separating the thresholds for GST and duty;
- altering the basis for the calculation of GST on low value imports;
- automating the process for assessing revenue liabilities and notifying the recipient;
- allowing Australia Post and other carriers to be responsible for revenue collection and payment, possibly charging a fee for doing so; and
- allowing goods to move out of the international mail gateway prior to the payment of revenue liabilities.

19. The final report found that pre-arrival, electronic data would enable Customs and Border Protection to risk assess for revenue and other border risks prior to the arrival of a package. Separating the GST and customs duty thresholds and altering the basis for the calculation of the GST will allow for faster calculation of any revenue due at the border, and this may generally be done without repeated communication with the importer. Allowing goods to leave the border and have the revenue collected by the

1 Press release: 9 December 2011 'New council to advise Government of future of sector' http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2011/166.htm&pageID=003&min=brs&Year=2011&DocType=0

organisation responsible for delivering the package will allow for goods to continue travel to the importer before they have met their liability.

20. The taskforce considered that, if implemented, these reforms would reduce the cost of handling goods and collecting revenue which would improve the handling of all goods and may make some reduction in the low value threshold in relation to GST (but probably not customs duty) feasible.

Size and scope of markets

21. The Commission (2011, pg 87) estimates that Australian retail spending in 2010 was $215 billion, including domestic online retailing of $8.4 billion. Overseas online retailing spending by Australians in the same period was estimated to be $4.2 billion. In percentage terms, online spending accounts for 6 per cent of retail spending. This is comprised of 4 per cent domestic and 2 per cent overseas.

22. Exact estimates of the volumes and values associated with low value imports are not precisely known. The Taskforce (2012, pg 29-35) reports that 48 million international mail parcels, 10 million air cargo parcels and 60,000 sea cargo low value imports of goods entered Australia in 2010-11. The total value of these imports is in the order of $6 billion. The discrepancy between this and the volume of online shopping arises because low valued imports can occur for many reasons. For example, relatives could be sending gifts or registered businesses could be importing goods for resale (low value imports by businesses are not reflected in online retail spending).

23. Recent growth in the numbers of low value parcels has been large. Since 2006-07, the number of international mail parcels under the threshold has increased from 24 million to 48 million; a compound growth rate of 19.5 per cent per year and 36 per cent over the last two years. Air cargo volumes have increased from 7 million in 2008-09 to 11 million in 2010-11, a compound growth rate of 25.8 per cent per year. The reasons for this growth are likely to be (and not limited to) growing consumer confidence with online shopping and related payment services; the greater range of goods available online; increasing broadband adoption; and, the appreciation of the Australian dollar.

24. In the future, online shopping and hence the volumes of goods arriving valued under the threshold will continue to grow rapidly. This growth will be driven by the factors that have driven growth in the recent past. Estimates place the growth of online shopping at around 15 to 30 per cent per year (Taskforce, 2012, pg 40). (On 19 July 2012, the Assistant Treasurer and the Parliamentary Secretary for the Treasurer jointly announced funding for the Australian Bureau of Statistics to track Australian online retail spending). Despite this growth, Australia lags behind other countries in terms of the extent of online retailing. In the UK, for example, online penetration is approximately 10 per cent of retail sales (Taskforce, 2012, pg 40) which indicates the potential for strong growth to continue.

Impact on markets

25. At the most basic level, the threshold makes goods valued under $1,000 imported from overseas cheaper than equivalent goods purchased domestically. This largely results from the lack of application of the GST to goods imported by consumers and unregistered businesses. Businesses registered for GST are typically entitled to input tax credits equal to the GST payable on their creditable imports. This means that a change in the threshold will have limited effect on their choice of supplier, except where the threshold provides a cash flow benefit.

26. Imported goods valued under threshold are also free from customs duty and import fees; however these will have a smaller impact on price differentials. Where

applicable, customs duty is applied to the value of imports by Australia suppliers on the cost price of their imports, which will be passed in the final sale price or absorbed into the seller's margin. Further, as imports by Australia suppliers will typically be in bulk, the cost of import processing fees, which are charged on a per consignment basis, can be averaged over all of the items included in the import. Overall, fees and duty have a lower effect on the sales price than GST for goods imported and on sold. In terms of final price to consumers, the lack of GST means that the imported goods will be 9 per cent cheaper than the domestic equivalent (or alternatively, the domestic good will be 10 per cent more expensive than the imported equivalent). Given a choice, consumers would be expected to opt for the cheaper alternative.

27. However, the situation is more complicated that this; differences in price between Australian and foreign sellers are often in excess of the difference accounted for by the threshold. The Commission (2011, pg 139-168) extensively explored these differences, finding that for some product categories the differences were in the order of 50 per cent or more. The Commission was of the view that these differences were driven by wage and labour costs; rent and other occupancy costs; wholesale and distribution costs; other retailer specific costs; and, differences in profit margins.

28. The low value threshold is thus just one factor, of many, affecting price differentials and the impact of the threshold may be outweighed by other factors. For example, the Commission (2011, pg 192-193) considered the impact of postage costs and concluded that these would outweigh the effect of the GST. It thought that Australian retailers would have cheaper shipping costs (per item) when compared with goods sent individually from overseas and these shipping costs could outweigh the lack of impost of the GST.

29. This may not apply universally as there is significant variation in shipping costs between countries. In countries where postage costs are heavily subsidised the shipping costs to export an item into Australia may be lower than the costs to ship items within Australia. The extent to which this occurs is uncertain. In addition, shipping costs may be partly built into the price of goods so the value charged to the importer may not be an accurate reflection of the actual cost.

30. The Commission (2011, pg 193) concluded that while the low value threshold contributed to the price differentials between overseas and local retailers, it was not the only cause of such differentials and was not the only factor affecting the competitiveness of Australian retailers.

31. Furthermore, price is not the sole factor for consumers in deciding where to shop. Other factors include the delivery time, the level of after sales service, compatibility with Australia (for example compatibility with Australia's electricity supply) and the existence of substitute products. If these factors are important to individual consumers, the inclusion or lack of GST is unlikely to alter their choice. For example, if a consumer wished to order a good quickly they would choose an Australian retailer even if the price was slightly higher. Although goods may be available from overseas for speedy delivery, this will generally cost significantly more than for goods shipped from within Australia. Alternatively, if the goods they wish to purchase are more readily available from overseas they will choose to shop overseas and the lack or inclusion of GST on the import would have a limited impact on this decision.

Desired objectives

32. The desired objective of these proposals is to ensure that low value import processing is as cost-effective as possible without increasing the border risk faced by Australia. If it is possible to make sufficient reductions to the cost of processing this may facilitate lowering the low value import threshold. The appropriate level of the threshold will be driven by the design of the border processing system and should support the

design principles of Australia's tax and transfer system of equity, efficiency, simplicity, sustainability and policy consistency (AFTS Review Panel, 2009, pg 17).

Range of options for achieving the desired objective

33. Two broad options for achieving the desired objective are considered in this Regulation Impact Statement. These are to maintain the status quo or to broadly follow the recommendations of the Taskforce to implement a new system for processing low valued parcels. In addition, a third minor option of accepting a limited range of the recommendations but not forming an advisory committee is also briefly considered.

34. The status quo would retain the low value threshold that exempts imports of goods valued under $1,000 for requiring formal entry and the payment of relevant taxes and charges. Agencies involved in border processing would continue to make incremental improvements to the efficiency of border processing over time. This is unlikely to generate the significant cost savings required to reduce the threshold.

35. Any attempt to significantly lower the threshold immediately would not be feasible, due to the large administrative and compliance costs that would be generated using the current system. In its final report, the Taskforce found that there is no immediate solution to the problem of processing large numbers of low value imported goods in a way which would permit the cost effective collection of revenue. This is in line with the view of the Commission (2011, pg 201) who concluded that collection costs would need to fall by more than half to allow for a neutral or positive cost-benefit pay off.

36. The alternative is to implement the system proposed by the Taskforce and reassess the appropriateness of the threshold in the future. The Taskforce's report sets out a pathway for lowering parcel processing costs over time through a combination of initiatives involving legislative change as well making use of modern technology. Once implemented, lower processing costs would create an environment where the low value threshold could be reduced without resulting in excessive administration and compliance costs. This would enable processing of the large increase in the number of low valued parcels that is anticipated to occur. In turn, lower processing costs would facilitate more cost effective tax collection that would improve the efficiency and equity the of GST arrangements.

37. The main elements of the Taskforce's proposal will be further considered by Government in detailed business cases and implementation plans before a final response to the report is released in 2013. In addition to these main elements, a number of other minor changes will also be implemented. Separate from the main elements of the Taskforce's proposal, these minor changes will result in the status quo essentially being maintained, and so are not considered as a separate feasible option in this Regulation Impact Statement.

38. Electronic pre-arrival data remitted to Australia by foreign postal authorities is likely to be at least two years away and quite probably longer. This element will not be able to be implemented until there is widespread provision of electronic data from foreign postal authorities. This will require international agreement and cooperation for the system to be put into place. The Taskforce reports that this data will start to become available from 1 July 2014, however, it is quite likely that this is optimistic given experience with negotiating treaty changes, especially with the Universal Postal Union and its 192 members. Due to its reliance on this data, the full implementation of the Taskforce's proposed reform path will also be at least two years away and likely longer, as would any potential change in the value of the threshold.

39. A variety of other options, such as involving financial intermediaries in collecting tax or requiring Australian consumers to self-assess their tax liability, were

considered by the Taskforce as possible options. As the Taskforce did not consider these options feasible at this time, these other options are not considered in this Regulation Impact Statement.

Assessment of the impact

Status quo

40. The status quo is to retain the current threshold of $1,000. No changes would be made to the processing of low value imported goods.

Benefits

Community

41. The community, particularly consumers who import goods under the threshold are the main beneficiaries of the current threshold arrangements. While it was acknowledged by the Commission that the GST advantage alone was not the main driver for Australians purchasing goods from overseas (as discussed earlier), the lack of tax and associated handling charges would allow Australian consumers to benefit from lower priced imports of low value goods. The 2011 Tax Expenditures Statement reports that the benefit from the threshold to consumers was $630 million in 2011-12, rising to $830 million in 2014-15 (Treasury, 2012, pg 194).

42. In addition, the lack of formal entry requirements means that consumers importing goods under the threshold do not need to pay import processing charges and provide full import declarations — a form involving complex information detailing the import. The exact import processing charge depends on the specifics of the import, for example what level of biosecurity assessment is required on the package; however it will be typically be around $50 per package. Full import declarations require specialised knowledge such as the classification of the goods under the Customs Tariff Act. Consumers are unlikely to hold such knowledge so may be required to employ a customs broker, at a cost of $60 to $80 per hour (Taskforce, 2012, pg 191). The current threshold allows consumers to avoid these costs for their low value imports.

Business

43. The benefits to businesses are similar to those to consumers, that is, there are no taxes or duty charged for their low value imports and they are not subject to formal entry requirements including import fees. The impact of the latter of these is the same as for consumers as is the impost of duty. However, because the GST is a tax on private consumption in Australia registered businesses are generally entitled to an input tax credit for the tax on their creditable importations. This means that there will typically be no net GST collected on importations by registered businesses. Where these businesses are not in the deferral scheme, the low value import threshold provides a cash flow benefit to businesses using it. Small businesses that are not registered for GST benefit from the lack of impost of GST in a similar way to consumers.

Costs

Community

44. Australia's Future Tax System (AFTS) Review Panel (2009, pg 17) noted the design principles for Australia's tax and transfer system as being equity, efficiency, simplicity, sustainability and policy consistency. The current threshold arrangements negatively affect the equity, efficiency and sustainability of the tax system. These negative impacts are anticipated to increase over time due to the large growth in the number of low value imports.

45. In terms of equity, the threshold means that similar goods are taxed in an unequal manner.

46. The efficiency of the tax system represents the tax's impact on economic efficiency and the administrative and compliance costs of collecting it. Without change, the low value threshold will continue to cause economic inefficiency through distorting resource allocation. The Commission (2011, pg 189-190) undertook illustrative modelling to the cost of this misallocation and estimated it to be between $10 and $70 million per year. (The current threshold balances this against the high administrative and compliance costs that would exist if the threshold was reduced under the present system).

47. The sustainability of the tax system is its ability to provide funding for government programs. The large anticipated growth in low value imports will decrease the sustainability of the GST through allowing consumption in Australia to occur untaxed.

Business

48. The impacts of the threshold on the retail industry where discussed above ('Impacts on markets'). The section concluded that the low value threshold contributed to price differentials between low valued imports and domestic substitutes of around 10 per cent; however it was not the only source of such price differentials. When the Commission considered the impact of the threshold on the retail industry, it concluded that the threshold was not the main factor affecting the competiveness of Australian retailers. However, in marginal cases the threshold may be providing a price benefit to overseas retailers over domestic retailers, reducing some domestic retailers', including small businesses, turnover and profitability.

49. The threshold also provides an incentive for Australian businesses to structure their operations in a manner that allows them to avoid charging GST to consumers giving them a competitive advantage over other businesses. Such action is allowed within the scope of the law; however, in the longer term such activity will erode the GST revenue.

Government

50. The growth in low value imports will continue to erode the GST revenue resulting in a loss of revenue for the States and Territories. This is essentially the opposite of the benefit that consumers and unregistered businesses gain from the current threshold. As previously stated, the tax expenditure for the threshold is estimated to be $630 million in 2011-12, rising to $830 million in 2014-15 (Treasury, 2012, pg 194). This limits the ability of the States and Territories to provide essential services.

51. Processing of imports at the border is performed by Customs and Border Protection, supported by the Department of Agriculture, Fisheries and Forestry (DAFF) and, for mail items, Australia Post. The current physical infrastructure and import systems are designed to process the current level of low value imports and level of the threshold. Any large increase in the volumes of parcels may overwhelm the ability of border processing agencies to clear imported goods through the border. This would have a flow on effect of increasing the costs for all importers due to delivery delays and increasing fees (under the current arrangements low value imports do not pay any fees and are subsidised in part by the fees paid by other importers).

52. Both the Commission and the Taskforce highlighted the large anticipated increase in the growth of online shopping and hence low value imports. The volumes of low value imports have increased at a compound rate of approximately 30 per cent over the last few years. If such trends continue, which is possible considering that online shopping is estimated to grow between 15 and 30 per cent per year, the volumes may overwhelm the ability of border agencies to process these goods in an efficient manner

(although low value goods are not subject to tax, they are still all assessed for other border risks).

53. Under the *Intergovernmental Agreement on Federal Financial Relations*, the States and Territories are required to meet the agreed costs of the Australian Taxation Office administering the GST. This includes costs incurred by Customs and Border Protection. To the extent the increase in parcel volumes increases the costs of Customs and Border Protection administration the GST on imports, these increased costs will be passed through to the States and Territories further limiting their ability to provide essential services.

54. Further, where Australia Post, express carriers and other freight forwarders incur administrative costs as appointed collectors and remitters of GST on imports, cost recovery arrangements would require consideration.

Australia Post

55. Similar to Government agencies involved in border processing, without other reforms and investment, the future expected growth in parcel volumes may cause delays in the delivery of international parcels. Although Australia Post continues to make investments to improve its capabilities in delivering parcels, the Commission (2011, pg 211) was of the view that the current border clearance arrangements were not up to the task of accommodating the future demands of the expected growth of online retailing.

56. In addition, Australia Post is required under international agreements to deliver certain types of packages at a compensation rate which does not cover the costs of delivery, so Australia Post incurs a substantial loss delivering these items. These losses are estimated at $40 million in total or $1.06 per item (Commission, 2011, pg 196). To the extent that the threshold acts as an added incentive to increase imports of these packets, it contributes to this loss incurred by Australia Post. This means overseas senders are effectively receiving a subsidised rate

Likelihood of achieving the desired objective

57. Retaining the status quo is a feasible option that balances the revenue collected and the costs of collecting that revenue. Although with the current threshold there are examples of packages being misrepresented to avoid tax, the overall incidence of this is low. There is little risk of non-compliance interfering with achieving the desirable objective.

58. However, there are unlikely to be any significant gains in the cost-effectiveness of import processing, except where changes occur organically from border processing agencies improving their practices. Such improvements will be made in an environment largely determined by the existing threshold, and are unlikely to be sufficient to enable a lower threshold. This means that there is no scope to lower the threshold and improve the equity and efficiency of the GST system.

59. Despite this, the current threshold strikes an appropriate balance between the equity and efficiency of the GST system against the high administrative and compliance costs that would exist if the threshold was reduced. Given the current arrangements for border processing, this option supports the design principles of Australia's tax and transfer system.

60. Overall, the status quo could be an acceptable way of achieving the desired objective of ensuring that low value import processing is as efficient as possible having regard to the objectives of achieving equity in the tax system and limiting the costs associated with collecting tax. Processes for dealing with border risk will not be changed, so the level of border risk faced by Australia will not increase.

Implement recommendations of the Taskforce and reassess threshold in the future

61. This option would implement the recommendations of the Taskforce to lower the cost of processing low value imports and, in the future re-examine and reduce the threshold to the extent that it is cost effective to do so. Many of the costs and benefits of the new system will depend on what is physically implemented and the level of the threshold. The level of the threshold dictates the number of packages that will need to be assessed for tax.

62. For example, a reduction in the threshold to $500 will increase the number of packages subject to tax by approximately 2 million (Commission, 2011, pg 183-186). Air cargo will comprise 700,000 of these, with the remaining 1.23 million coming through international mail. Under current arrangements 18,000 international mail parcels are entered above the threshold, as were some 600,000 air cargo parcels valued between $1,000 and $5,000.

63. Implementing this option would involve accepting the majority of the recommendations of the Taskforce. The main elements of the Taskforce's proposed reform are:

- increasing the use of electronic pre-arrival data to assess revenue and border risk (Recommendation 4.1);
- separating the thresholds for GST and duty (Recommendation 3.3);
- altering the basis for the calculation of GST on low value imports (Recommendation 3.4);
- automating the process for assessing revenue liabilities and notifying the recipient (Recommendation 4.1);
- allowing Australia Post and other carriers to be responsible for revenue collection and payment, possibly charging a fee for doing so (Recommendation 4.1); and
- allowing goods to move out of the international mail gateway prior to the payment of revenue liabilities (Recommendation 4.1).

64. An advisory committee will oversee the development business cases and implementation plans to cover these proposals with the aim of releasing a final response to the report in 2013. In addition, when developing these business cases the advisory committee will consider appropriateness and costs of other recommendations of the Taskforce. These include:

- the potential creation of a direct debit system for revenue collection from low value goods (Recommendation 4.2);
- approaches to enable and encourage overseas suppliers to collect and remit GST (Recommendation 4.3);
- additional funding for border agencies to undertake research on risk analysis and management for low value goods (Recommendation 4.4(b));
- periodic testing to assess levels of undervaluation in relation to low value imported goods; a review of penalty provisions under the Customs Act and Tax Administration Act and additional funding for compliance and enforcement activities by Customs and Border Protection (Recommendation 4.8); and

- providing relevant information on low value imports of goods to the Australian Bureau of Statistics and the States and Territories (Recommendations 4.10 and 4.11).

65. In addition, and regardless of the outcomes of the advisory groups' business cases and implementation plans, the Government would:

- continue to support, through its membership of international organisations related to the postal system, appropriate initiatives for the provision and interchange of electronic pre-arrival data (Recommendation 2.1);
- subject to the availability of electronic pre-arrival postal data, the potential development of a cost-effective arrangement, and appropriate privacy arrangements, arrange for Customs and Border Protection to provide the Australia Taxation Office relevant information on low value imports (Recommendations 4.9); and
- introduce legislation to separate the threshold for GST purposes from the threshold for duty purposes (Recommendation 3.3). Currently, the GST Law refers to the Customs Law in legislating the value of the low value threshold for both GST and customs duty purposes. This legislation would move the location of the GST threshold to the GST Law. This legislation would not have any effect unless the thresholds were changed. This option does not recommend or commit to any specific level of the threshold, rather it allows for any future change to the threshold to be legislated more easily.

66. The overall implementation of the Taskforce's proposed system is guided by Recommendation 5.1 that the reforms be implemented in conjunction with enhanced risk based assessment, in a staged manner and in consultation with the States and Territories.

Benefits

Community

67. Should the threshold be lowered, the equity, efficiency and sustainability of the GST would be increased by addressing. The extent that this occurs will depend on the level the threshold is reduced to. A lower threshold would mean that similar goods are treated in similar ways, improving the equity of the GST. The market distortion arising from the unequal tax treatment, which the Commission (2011, pg 189-190) estimated to be between $10 and $70 million per year, would be reduced, improving efficiency. In addition, implementing the recommendations of the Taskforce will reduce the costs associated with collecting the tax. A lower threshold would also improve sustainability of the GST by reducing the extent that the large growth in low value imports will erode the GST revenue.

68. Implementation of the Taskforce proposed reforms will increase the access to electronic pre-arrival data for international mail (similar information is already provided in the cargo environment). Access to this information would allow for improved risk assessment by border agencies. This should improve the effectiveness of Australian border and biosecurity protection.

Business

69. While not the main factor affecting the retail industry, any future lowering of the threshold would reduce the effect of the reverse tariff harming domestic retailers and make the competitive environment more even. This would be achieved through the narrowing of price differentials between local and foreign purchased goods. Ultimately,

such a change would improve the equity of Australia's tax system by ensuring a more equal tax treatment between similar goods.

70. Lowering the low value threshold would also increase the competitiveness of small businesses that compete with overseas online retailers by evening out the tax treatment of domestic and overseas online retailers. It is noted that for goods normally subject to customs duty such as textiles, clothing and footwear products, the concession provided by the threshold for such low value goods is greater.

Government

71. Under the *Intergovernmental Agreement on Federal Financial Relations*, revenue from the GST is provided to the States and Territories to assist them in providing essential services, such as health and education. Any revenue collected from a lowering of the threshold in excess of additional administrative costs would be provided to the States and Territories which would allow them to increase the provision of these services.

72. The amount of revenue provided to the States and Territories will depend on the level that the threshold is reduced to. For example, the Taskforce (2012, pg 193-194) reports that a reduction in the threshold to $500 would result in $70 million additional GST revenue. Lower thresholds will generate a higher amount of revenue.

73. The provision of information to the Australian Taxation Office and the Australian Bureau of Statistics would enable them to better carry out their functions. The provision to the States and Territories would allow them to be better informed in making policy and investment decisions relating to low value imports.

Australia Post

74. Parts of the proposed reforms to border processing may allow aspects of Australia Post's processing costs to be made more efficient. For example, increasing the speed with which packages that are subject to taxes can be processed by border agencies should help address existing bottlenecks. This should also assist in making it easier to process the future anticipated increases in the volume of low value imports associated with the rapid growth in online shopping.

Costs

Community

75. If the threshold is lowered, imports valued between any new threshold and $1,000 would then be subject to tax, increasing the price paid by consumers. This increase in tax alone is unlikely to significantly limit the extent to which Australian consumers purchase from overseas as the price differential is often far greater than the GST of 10 per cent. There may also be some compliance costs and handling charges.

76. However, the low value threshold is a tax concession that recognises the current administrative and compliance costs of collecting the tax. Apart from these costs, there is no policy reason that the GST should not apply equally to comparable goods.

77. A technical amendment to move the GST threshold to the GST law would require minor implementation and administrative costs for government and result in minor compliance costs to taxpayers. These costs would be one off costs associated with amending the legislation.

Business

78. In the event that the threshold is lowered, businesses that use the threshold to import goods would be impacted by additional compliance costs and minor cash flow effects. An expansion of the GST deferral scheme could mitigate some of these costs but would involve a significant first year cost to revenue. Some small businesses currently

import goods into Australia that are under the low value threshold without payment of duty and GST. Lowering the threshold would increase compliance and cash flow costs for these businesses as they would have to make new arrangements to pay GST and later claim an input tax credit, as well as incurring import processing fees on imported goods that are no longer able to be imported as low value goods.

79. Should the threshold be lowered, air and sea cargo carriers will face additional compliance costs, to the extent that they are responsible for collecting and remitting revenue. These costs could be passed on to their customers in the form of higher fees. However implementing arrangements which streamline GST collection, such as in recommendation 4.2 of the Taskforce report, would mitigate any such compliance costs. The Taskforce (2012, pg 198) gives an indicative cost per item in the air cargo environment of $15 to $30. This is comparable to the current $30 cost for imports over the threshold faced by air carriers (Taskforce, 2012, pg 191).

80. Were overseas retailers who export goods to consumers be required to collect GST due on their sales to Australian customers, any reduction in the threshold would increase their compliance costs. To some extent, this will be a business decision for the overseas retailer as they can structure arrangements to shift the obligation to pay onto their customers and will likely only be performed if the benefits outweigh the compliance costs (for example, quicker delivery due to faster border processing improving their customers' experience).

Government

81. Implementing recommendations of the Taskforce will require a substantial upfront infrastructure investment. This investment would implement updated computer systems and make the changes required at the international mail gateways. In its initial response to the Taskforce, the Government agreed to establish a committee to develop detailed implementation plans and business cases for the proposed reforms. Final costs will not be known until the committee has further refined the proposals. The Taskforce (2012, pg 185) does provide indicative capital cost of implementing its proposals in the international mail environment of between $20 and $100 million. The final cost will depend on the level the threshold is reduced to and the specifics of the system used. In the air cargo environment, back end changes to the Integrated Cargo System (ICS) are reported to have a high level indicative cost of around $3 million (Taskforce, 2012, pg 187). In addition, there will be ancillary costs involving education and communication of any changes, rebranding, re-signing, marketing, industry engagement and consultation. For the most part, these ancillary costs will fall on Customs and Border Protection.

82. Ongoing costs will include activities potentially undertaken by Customs and Border Protection and the Australian Taxation Office and will depend on the level of the threshold and the import environment considered. The Taskforce (2012, pg 187) provides an indicative per item cost of $2 for compliance activity, $2 to cover potential costs of dealing with GST exemptions, and $1 to fund ongoing work relating to the ICS. Ongoing costs in the international mail environment are discussed under Australia Post and costs in the air cargo environment are discussed under Business (these ancillary costs are included in the estimates presented in those sections).

83. Under the *Intergovernmental Agreement on Federal Financial Relations (the Intergovernmental Agreement)*, the States and Territories are required to meet the agreed costs of the ATO administering the GST. This includes costs incurred by Customs and Border Protection. To the extent that a lower threshold increases the costs of Customs administering the collection of GST due on low value packages, these costs would be passed through to the States and Territories.

84. Should the Government authorise Australia Post, express carries and other freight forwarders to collect and remit GST on imports, cost recovery arrangements to meet their administrative costs would require consideration.

85. If these costs were too high the States and Territories could refuse to approve this change to GST arrangements. Under the Intergovernmental Agreement the unanimous approval of the States and Territories is required to change these GST arrangements.

Australia Post

86. Should the threshold be lowered, Australia Post will face an increase in handling and storage costs associated with collecting revenue from a greater proportion of inbound packages in addition to any new costs from assuming responsibility for collecting and remitting revenue. These costs may need to be passed onto their customers in the form of higher fees or charges. For some packages, international treaty obligations may prevent Australia Post from passing on these costs to overseas senders which may mean they will need to be charged to the end recipient.

87. Depending on the level at which the threshold is set, the Taskforce (2012, pg 188) reports that per item processing costs for goods arriving by international mail will be in the order of $10 to $20 (including the ancillary costs discussed above). With a threshold of $500, the per item cost in 2014 is estimated to be $20.19, falling to $17.53 in 2018. Under current processes, the processing cost for goods arriving through the mail that are over $1,000 is approximately $50 per item (based on the cost recovered import processing charge). In aggregate, the Taskforce reports that ongoing collection costs in the international mail environment with a threshold of $500 will be $11 million in 2014. This would be approximately 33 per cent of the revenue collected from these imports (Taskforce, 2012, pg 197).

Likelihood of achieving the desired objective

88. Successful implementation of the Taskforce's recommendations would increase the efficiency of parcel processing and enable the low value threshold for GST to be reduced in a way that is cost effective. In considering the costs of processing low value packages, the Commission concluded the processing costs needed to fall by more than half to allow for a neutral or positive cost-benefit payoff. A necessary condition for this proposal to achieve the desired objective is for the costs of processing each item to fall by more than half.

89. As noted above, the Taskforce reports that if the proposed changes are implemented, on a per item basis in the international mail environment, the collection costs for a $500 threshold will be $20.19 in 2014, falling to $17.53 in 2018 (including ancillary costs). [2] For a lower threshold, the Taskforce recommends more significant changes. In these situations the per item cost of processing is lower, but total costs are higher due to the higher volume of packages that are assessed. These costs include ancillary costs to the processing of parcels, including compliance activity, the provision of a helpline and ongoing support and maintenance for the IT system. In the air cargo environment the Taskforce's (2012, pg 191-192) indicative costing estimates the cost between $15 and $30 per item (including ancillary costs), although it anticipates the actual cost would be at the low end of this range. In addition, use of the GST deferral scheme by business importers will lower this cost by 50 per cent (Taskforce, 2012, pg 199).

90. In sum, the Taskforce's proposed system is anticipated to meet the Commission's requirement of processing costs falling by half or more. This is

2 The Taskforce (2012, pg 187) notes that these figures are of a low level of confidence, at best +/- 50 per cent.

particularly true in the international mail environment, where the majority of low value imports are made. Although costs in the air cargo environment do not reach a 50 per cent reduction, greater use of the GST deferral scheme by registered would mean that, on average, the costs of processing should meet the Commission's requirement. Even if the uptake of the deferral scheme does not increase, the efficiency gains in the mail environment, where the majority of parcels enter, will mean overall processing costs fall by more than 50 per cent.

91. Compliance with the system proposed by the Taskforce is anticipated to be high and will not reduce the likelihood of the proposed reform achieving its objective. Should the threshold be decreased, the scope to misrepresent values increases. As such, the number of packages not complying with the threshold is likely to increase. However, non-compliance for these extra packages will result in a lower benefit per item compared with that under the current arrangements. For example, a person importing goods worth $1,500 could avoid paying approximately $150 in GST plus any duty and applicable fees. Non-compliance with any future lower threshold would benefit the import at most $100 in GST and any applicable fees, so the incentive to not comply is lower.

92. Additionally, the electronic pre-arrival data would allow Customs and Border Protection to improve its risk assessment model. This would enable it to more easily identify packages that represent non-compliance risk, including being able to better identify repeat offenders. Its ability to do this will depend on the quality of data provided to them.

93. On balance, a lower threshold enabled by the introduction of the Taskforce's recommended system is likely to be accompanied by a rate of non-compliance similar to that currently experienced. The rate of non-compliance is unlikely to stop the proposed option from achieving the policy objective, particularly in light of the increased effectiveness of risk assessment by Customs and Border Protection arising from the use of electronic pre-arrival data.

94. The availability of this data presents a risk to the effectiveness of the proposal achieving the desired objective. The availability of this data is dependent on international cooperation and without it the Taskforce forecast significant gains in the efficiency of import processing are unlikely. While the Taskforce (2012, pg 114) reports that this data should be available from mid-2014, this timeframe is optimistic. Treaty action to give effect to the pre arrival electronic data may take considerable time to negotiate and implement. As international initiatives to provide pre-arrival data are driven primarily by aviation security concerns it is unlikely that the availability of this information will be delayed indefinitely (Taskforce, 2012, pg 113). In addition, it is likely that the availability of this data, in terms of the proportion of imports covered, will initially be low. As noted by the Taskforce, any Universal Postal Union electronic reporting proposal that could be secured would at best account for 20 per cent of the total parcel volumes coming into Australian gateways. Based on 2011-12 data this would mean some 52 million items would remain unreported.

95. Successful implementation of the Taskforce's recommended system has a high likelihood of achieving of the desired objective of ensuring that low value import processing is as cost effective as possible. This would enable the low value threshold to be reduced without generating an onerous level of administrative and compliance costs. Such a reduction would increase the equity and efficiency of Australia's GST arrangements. Increased availability of electronic pre-arrival data has the potential to increase the effectiveness of risk assessment and decrease Australia's border risk.

Conclusion

96. Implementation of the recommendations of the Taskforce would proceed if it allowed for more cost-effective processing of low valued imports and these lower costs

would enable a reduction in threshold. Whilst retaining the status quo is an acceptable way of achieving the desired objective, the alternative option would improve over the status quo by increasing the efficiency of border processing whilst better support the design principles of Australia's tax and transfers system.

97. In this option an advisory committee would develop business cases and possible implementation plans to implement the Taskforce's proposed system if it is cost effective to do so This system would include:

- increasing the use of electronic pre-arrival data to assess revenue and border risk (Recommendation 4.1);
- separating the thresholds for GST and duty (Recommendation 3.3);
- altering the basis for the calculation of GST on low value imports (Recommendation 3.4);
- automating the process for assessing revenue liabilities and notifying the recipient (Recommendation 4.1);
- allowing Australia Post and other carriers to be responsible for revenue collection and payment, possibly charging a fee for doing so (Recommendation 4.1); and
- allowing goods to move out of the international mail gateway prior to the payment of revenue liabilities (Recommendation 4.1).

98. In addition, when developing these business cases the advisory committee will consider the appropriateness and costs of implementing other recommendations of the Taskforce. These include:

- the creation of a direct debit system for revenue collection from low value goods (Recommendation 4.2);
- approaches to enable and encourage overseas suppliers to collect and remit GST (Recommendation 4.3);
- additional funding for border agencies to undertake research on risk analysis and management for low value goods (Recommendation 4.4(b));
- periodic testing to assess levels of undervaluation in relation to low value imported goods; a review of penalty provisions under the Customs Act and Tax Administration Act and additional funding for compliance and enforcement activities by Customs and Border Protection (Recommendation 4.8); and
- providing of relevant information on low value imports of goods to the Australian Bureau of Statistics and the States and Territories (Recommendations 4.10 and 4.11).

99. These business cases would be provided to the Government in 2013 for its consideration. Following this, the Government would release its final response to the Taskforce's report.

100. In addition, under this option the Government would begin implementing certain recommendations of the Taskforce immediately. These are:

- for the Government to continue to support, through its membership of international organisations related to the postal system, appropriate initiatives for the provision and interchange of electronic pre-arrival data (Recommendation 2.1);

- subject to the availability of electronic pre-arrival postal data the and the potential development of a cost-effective arrangement, arranging for Customs and Border Protection to provide the Australia Taxation Office relevant information on the low value imports (Recommendations 4.9); and

101. introduce legislation to separate the threshold for GST purposes from the threshold for duty purposes (Recommendation 3.3).

102. In an environment where there are large administrative and compliance costs a reduction in the threshold would be a net cost on the community. In the event that these costs can be reduced to the point at which a lower threshold was cost effective (in terms of per item processing and revenue collection), the reduction in the threshold would address the current non-neutrality in the tax system without causing an increase in the level of administrative and compliance costs.

103. There is a potential risk of the costs not falling sufficiently to allow a reduction in the threshold. The detailed design of the systems and implementation costs will be further developed by an advisory committee. Similarly, there is a risk that the availability of pre-arrival data is not sufficient to allow a lower threshold. In both situations the status quo will effectively be retained. This option was previously assessed as acceptable in achieving the described objective.

Consultation statement

104. The low value threshold has been a subject of continuing debate over an extended period, with the public focus on the threshold increasing during the past two years. Consultation over this time on the most appropriate course of action has been considerable.

105. The Board of Taxation considered the operation of the threshold in its 2010 *Review of the Application of the GST to cross-border transactions*. The Board released a discussion paper in July 2009 to facilitate public consultation, to which it received 19 submissions. Of these several focussed specifically on the low value threshold with many arguing for a significant lowering of the threshold. However, the Board was of the view that the low value importation threshold of $1,000 was appropriate as at that time it was not administratively feasible to bring low valued imports of goods into the GST system.

106. The Productivity Commission's retail inquiry included two rounds of consultation, before and after it issued its draft report. In sum, the Commission received 240 submissions and held 4 public hearings, although not all considered the low value threshold. Briefly, and in general:

- consumers were unsupportive of any reduction in the threshold, not wanting to be subject to additional tax. Some noted that the addition of 10 per cent GST would not be sufficient to stop them from purchasing goods for overseas;
- most retailers and unions were supportive of a lowering of the threshold arguing that the it placed them at a significant competitive disadvantage; and
- representatives of air carriers thought the current threshold struck the most appropriate balance between administrative costs and revenue collection. They were supportive of any process that improved the efficiency of border processing.

107. The Commission received 129 submissions in response to its issues paper. Around 80 per cent of these considered the threshold in some manner in their response.

Submissions in response to the draft report were typically from commenters who had made a submission to the issues paper and repeated the similar concerns.

108. Approximately 10 per cent of the submissions were provided by consumers, of which all but one was positive to the threshold. They cited a variety of reasons that consumers were choosing to shop overseas and that the impost of GST on imported goods would not affect this. The reasons included:

- price differentials in excess of that attributable to GST and duty;
- poor service from local retailers; and
- a lack of choice in products from local retailers (particularly in regional areas).

109. The consumer who was negative to the threshold thought that it disadvantaged those who were unable to afford a computer and an internet connection to enable overseas shopping.

110. Considering only those who commented explicitly, consumers and six others were supportive of the maintenance or increase of the current threshold. A number of other submissions, particularly from consumers, argued that the threshold was not the main cause of retailers' current hardship, and as such only implicitly commented on the appropriateness of the threshold.

111. Of those submissions who explicitly stated a preference in regards to the threshold, the majority urged for its reduction or the removal. The call came, for the most part, from local retailers, associations of local retailer and unions who thought that the threshold placed domestic retailers at a significant competitive disadvantage.

112. Submissions considered the impact of the threshold on compliance and administrative costs.

- Four stated that the increased revenue from taxing additional imports would cover the administrative costs and two thought that the costs were irrelevant in setting the threshold.
- Five suggested that there is a double standard in the Government requiring registered business to collect GST, whilst allowing itself not to.
- Five considered compliance costs, noting the extra compliance costs that would be placed on importers if the threshold was reduced and two suggested that these costs would extend beyond importers, to business in general.

113. Some of these submissions made suggestions to improve the processing of goods at the border.

- Three submissions suggested that the importer should pay the costs for processing their imports and three other submissions thought that importers should be charged an import processing fee to cover this.
- Eight submissions suggested that the systems used overseas could be adopted for use in Australia. These submissions noted that other countries can administer lower thresholds than Australia. Two cautioned against this, noting that such systems may not be appropriate for Australia and may result in large compliance costs.
- Eight submissions suggested that financial intermediaries and others involved in the payments system could be involved in revenue collection; however a submission from a financial intermediary stated

that the current data provided in international transactions is insufficient to assist in revenue collection and such a requirement would place it under a large legal risk.

- Four submissions suggested that some form of self-assessment could be used, such as requiring individuals to report their purchases on their income tax return. A submission warned that this approach is used in the US and compliance is low.
- Six made minor suggestions to improving the process through activities such as:
- using Australia Post and others involved in delivering parcels in tax collection;
- establishing a voluntary scheme for GST pre-payment; and
- requiring overseas entities to collect GST.

114. In response to the concerns and suggestions of the consultation, the terms of reference for the Taskforce were broad and allowed them to explore many options. Most of the types of processes, such as involving financial intermediaries or establishing a voluntary scheme for GST pre-payment, suggested in consultation were examined by the Taskforce. Where the Taskforce thought these suggestions were feasible, it included them in them in its recommendations. The Taskforce was also required to consider the international best practice, and in addition, the recommended system was designed to be consistent with user pays where appropriate.

115. The Taskforce itself reports that it conducted significant, targeted consultations with participants involved in border processing of low valued goods. This was driven by its terms of reference that required it to consult the views of expert stakeholders. These stakeholders included representatives of express carriers, customs brokers and freight forwarders, retailers, small business, the States and Territories and relevant Government departments and agencies. While the views of these stakeholders are not recorded in the final report, the Taskforce took account of these views in forming its recommendations and costing its proposals.

116. The Retail Council of Australia was consulted by the Assistant Treasurer on the contents of the Taskforce's final report at the time of its release by the Government. At its meeting most council members were supportive of a reduction in the threshold.

117. As the current proposal is for the Government to release its initial response to the report, relevant stakeholders will continue to be consulted as the proposal is developed. In the event of any law changes, public consultation will be undertaken in the usual manner, including exposure of draft legislation.

Conclusion and recommended option

118. The recommended option is to implement recommendations of the Taskforce and reassess the threshold in the future. The Taskforce recommendations are for changes to be made to the way which low value imported goods are processed, including new revenue collection mechanisms. The main elements of the Taskforce's proposed reform are:

- increasing the use of electronic pre-arrival data to assess revenue and border risk;
- separating the thresholds for GST and duty;
- altering the basis for the calculation of GST on low value imports;

- automating the process for assessing revenue liabilities and notifying the recipient;
- allowing Australia Post and other carriers to be responsible for revenue collection and payment, possibly charging a fee for doing so; and
- allowing goods to move out of the international mail gateway prior to the payment of revenue liabilities.

119. These elements would be considered in detailed business cases and implementation plans developed by the Government, followed by a final response to the Taskforce's report in 2013. In addition to these core elements, in developing these plans the Government will also consider the inclusion of other recommendations of the Taskforce including:

- the creation of a direct debit system for revenue collection from low value goods;
- approaches to enable and encourage overseas suppliers to collect and remit GST;
- additional funding for border agencies to undertake research on risk analysis and management for low value goods;
- periodic testing to assess levels of undervaluation in relation to low value imported goods; a review of penalty provisions under the Customs Act and Tax Administration Act and additional funding for compliance and enforcement activities by Customs and Border Protection; and
- providing of relevant information on low value imports of goods to the Australian Bureau of Statistics and the States and Territories.

120. The final outcome of this process depends on the actual system designed and the costs of implementing that system. Should the new system be successfully implemented, it will improve the efficiency of processing low value imports of goods.

121. In addition to these plans, the option also includes implementing other minor recommendations of the Taskforce immediately. These included:

- for the Government to continue to support, through its membership of international organisations related to the postal system, appropriate initiatives for the provision and interchange of electronic pre-arrival data;
- subject to the availability of electronic pre-arrival postal data and the potential development of a cost-effective arrangement, Customs and Border Protection should provide the Australia Taxation Office relevant information on low value imports; and
- introduce legislation to separate the threshold for GST purposes from the threshold for duty purposes.

122. The threshold could be lowered in a cost-effective way to the extent that these reforms improve the efficiency of parcel processing. The extent that this will be possible will be dependent on a number of factors including the preparation of satisfactory business cases and implementation plans, the successful delivery of necessary infrastructure reforms and the increased availability of electronic pre-arrival data in the international mail stream.

Strategy to implement and review the preferred option

123. The recommendations of the Taskforce propose that detailed business cases and implementation plans be developed before any reform is undertaken in relation to low value imports of goods. These business plans will be developed by an advisory group that will present its findings to Government in 2013. Based on these plans the Government will release a final response to the report. As described above, the core elements of the Taskforce's recommendations will be included in the border processing system proposed by the advisory committee. In addition, other recommendations of the Taskforce will be considered by the advisory committee; however their inclusion in the final system will depend on their appropriateness and cost-effectiveness as determined by the committee.

124. If successfully implemented these proposals would improve the efficiency of border processing. Depending on the system designed and related funding arrangements this system is likely to require ongoing support from the Commonwealth, state and territory governments and relevant government agencies. Taken individually, these elements are unlikely to have an impact on the efficiency of border processing and hence any ongoing costs of any particular part of the recommendation cannot be separated from the overall system at this time.

125. In addition to these proposals, the Government will implement a small number of other recommendations of the Taskforce (detailed previously). There will not be any additional costs from continuing to support the initiatives on the provision of electronic pre-arrival data, such initiatives are already underway. When more information on the availability of this data availability, the cost-effectiveness of providing relevant information to the Australian Bureau of Statistics and States and Territories will be considered. If implemented, these will be accompanied by low ongoing costs, however the exact details will not be known until more information on electronic data is available.

126. The Government will also introduce legislation to move the threshold for GST purposes to the GST Act, resulting in minor implementation costs. In developing this legislation normal stakeholder consultation processes, including exposure draft of legislation, will be undertaken. This legislation would be a technical amendment and would require no ongoing costs to support.

127. Successful implementation of this new system would improve the efficiency of border processing for low value goods and allow for the low value threshold for GST to be reduced without resulting in significant costs. This will allow for Government to decide what level the threshold is ultimately reduced to. No particular level of the threshold has been considered in this Regulation Impact Statement.

128. There are two main obstacles in implementing the proposed reform. These are if the business cases and implementation plans do not yield a system that allows for a cost-effect implementation of the Taskforce's recommended system and if the provision of electronic pre-arrival data is significantly delayed.

129. A requirement of the proposal to achieve the desired objective is for the costs of processing goods to fall, in particular that the costs of processing each item are required to fall by more than half. As proposed, the system recommended by the Taskforce is estimated to meet this requirement; however these costs need to be more accurately determined in business cases that will be developed. In the event that these costs cannot be reduced to an appropriate level, the system will not be implemented.

130. Although other minor changes will be implemented, these are unlikely to have a significant effect on the efficiency of border processing. In particular, should electronic data be made available without the new system being in place to use it, this data will be of limited use. Further investment will be needed to use it effectively.

131. The system proposed by the Taskforce is reliant on the availability of electronic pre-arrival data in the international mail stream. Electronic reporting of mail is being discussed internationally through the Universal Postal Union (UPU), and current progress on this issue is still at a relatively early stage. It is unclear when electronic data will be of a level and quality to be of practical value. While the Taskforce (2012, pg 2014) reports that this data should be available from mid-2014, given the reliance on work taking place at an international level, the achievement of this start date for the commencement of electronic reporting will be challenging. It should also be reiterated that any UPU electronic reporting proposal that could be secured would at best account for 20 per cent of the total parcel volumes coming into Australian gateways, leaving some 52 million items unreported. There are two factors that slightly mitigate this risk. One, in implementing the recommendations of the Taskforce, the Government will continue to give support to appropriate initiatives relating to the provision of this information, slightly improving the likelihood that such processes develop successfully. Two, these international initiatives are driven primarily by aviation security concerns (Taskforce, 2012, pg 113). As such, it is unlikely that the availability of this information will be delayed indefinitely.

132. The status quo will be effectively retained in the event that the proposed system is not successful implemented. Although a select group of recommendations of the Taskforce may still be implemented, these will not increase the efficiency of border processing. In this situation it is unlikely that any change in the low value threshold could be undertaken in a cost-effective way. The status quo was assessed earlier as being an acceptable way of achieving the desired objective, although it is less desirable than implementing the system proposed by the Taskforce.

133. This Regulation Impact State proposes that recommendations of the Taskforce be further developed by an advisory committee which will develop business cases for the reforms. This advisory committee will determine the required technical changes to Customs and Border Protection's systems and physical changes required at the international mail gateways and for a limited number of recommendations consider their appropriateness for inclusion in new system. The advisory committee will provide Government with these proposals in 2013. An Implementation Regulation Impact Statement will be required to be submitted when the Government considers these detailed proposals. Based on the results of this process, the Government will release a final response to the Taskforce's report in 2013.

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