

THE MODERNISED TRANSPORTER MODEL

Amazon is proposing a Goods and Services Tax ('GST') collection model on low value imported goods ('LVIGs')¹ that builds on the transporter model developed as part of the *Low Value Parcel Processing Taskforce* ('The Taskforce') to take account of post-2012 technological developments. Amazon's modernised transporter model offers an improved experience for customers, and reduces the costs to and burden on transporters, in comparison to the original Taskforce model. Amazon's transporter model will: (i) have substantially higher GST collection rates than the legislated model included in the *Treasury Law Amendments (GST Low Value Goods) Act 2017*; thus (ii) generating greater State and Territory revenue at minimal cost to the government and Australia Post and (iii) ensuring a level playing field for Australian retailers; and (iv) can be implemented by 1 July 2018.

The legislated model for collection of GST on LVIGs is dependent on voluntary compliance from many thousands of non-resident vendors (including small businesses) and marketplaces that have no presence in Australia. The legislated model also requires offshore enforcement of Australian laws against each of these businesses in every country in which they operate. As a result, many businesses will not comply with the legislated model, without consequences. Adding to these challenges, as technology advances, new marketplaces will proliferate, as the cost of establishing a marketplace falls. Vendors looking to circumvent the law will easily be able to migrate their goods to new marketplaces which operate below the \$75,000 threshold. Consumers will also adapt their buying behaviours to seek out the marketplaces and vendors who do not charge the GST. This will further reduce GST collection under the legislated model. Therefore, the legislated model will not achieve Parliament's stated policy objective of levelling the playing field for Australian retailers and will not maximise GST revenue.

The Amazon proposal better achieves these objectives by placing enforceable liabilities on a limited number of domestic express carriers and Australia Post (collectively 'transporters') who have a physical presence in Australia, and in respect of whom the Australian Tax Office ('ATO') has jurisdiction. For these reasons, and because the model will drive consistent treatment of parcels entering Australia irrespective of who sold them, this model will ensure significantly greater GST collection rates than the legislated model and will truly level the playing field for Australian retailers.

The event triggering the GST liability on LVIGs is the importation of the LVIGs into Australia. As the transporter is the party facilitating the importation of the LVIGs, the transporter is the most appropriate party to be liable for GST on those goods.

LVIG Cargo

Express carriers already possess the capability to effect the transporter model through existing reporting of cargo arrival information to the Department of Immigration and Border Protection ('DIBP'). Evidence in Europe and the United States² suggests that such a model is capable of achieving a 98 per cent collection rate on cargo goods through the use of pre-arrival customs data exchange.³

LVIG Non-Letter Mail

Australia Post can also achieve a very high collection rate under the transporter model. Given Australia Post's commitment to implement Universal Postal Union (UPU) requirements relating to advanced electronic information on non-letter mail entries, Australia Post either has now, or will in the near future, have the necessary data available to it to enable it to collect and remit GST.

¹ Goods valued below A\$1,000

² Copenhagen Economics, September 2015, *Private Express Carriers' vs Posts' Treatment of Packages Inbound to the US: Security Risks and Customs Concerns*.

³ Copenhagen Economics, 4 May 2016, *E-commerce imports into Europe: VAT and customs treatment*, p.1.

Australia Post is a Group 1 member of the UPU which categorises countries into Groups 1-5. Group 1 countries are developed countries, Group 2-4 countries are developing countries and Group 5 are least developed countries.

Under the UPU's Integrated Product Plan (IPP), Group 1 countries are required to place a barcode on non-letter mail items. The barcode is used to transmit the same data that is declared on the customs declaration attached to the non-letter mail item. This contains a number of fields, including the description of the goods, the price, and the destination. Australia Post is already receiving pre-arrival electronic notification information contained in the barcode through the advanced electronic data interchange for some Group 1 countries, and can already use this information to implement the transporter model.⁴

Over the next 3-5 years, the IPP/UPU requirements will be phased in for the remainder of the Group 1 countries and the Group 2-4 countries. The 2016 UPU Congress requires all global postal authorities under the IPP (including developing countries - most notably China, Singapore and Hong Kong) to:

- Have the UPU standard barcode system⁵ in place by 1 January 2018; and
- Exchange advance clearance data with other postal operators by 2020.

Australia Post can develop full capability over time to collect GST on LVIG non-letter mail using barcode information by starting with Group 1 countries and adopting a transitional phased approach as more originating countries comply with the IPP/UPU requirements. Many of Australia's major trading partners are Group 1 countries and others are already working to comply with the IPP/UPU requirements, as it is in their national security and commercial interests to do so.

Until the IPP/UPU requirements are implemented in full, Amazon acknowledges that it may be challenging for Australia Post to collect all GST owed on non-letter mail received from non-compliant IPP/UPU countries. However, under-collection on non-letter mail is also a risk under the legislated model. Even with a phased approach for non-letter mail importations, a transporter model will collect substantially more GST than the legislated model given the extremely high expected rates of compliance that can be achieved for cargo importations.

National Security Considerations

The postal systems will need to be upgraded in any event to deal more effectively with rising threats to national security and safety. Recent instances of the importation into Australia, through mail, of explosives and handgun components highlight the shortcomings of the existing postal systems and processes⁶ in relation to the importation of dangerous goods.

Australia Post is required, under its UPU obligations, to undertake necessary upgrades to its systems and processes to address supply chain requirements relating to customs, security and aviation. The upgrades will require overseas postal operators to provide Australia Post with pre-arrival electronic advance data on imported non-letter mail, which can also be used by border protection authorities in designing and implementing systems to help identify higher-risk non-letter mail. The systems upgrades, process improvements and available data can be utilised to implement the modernised transporter model.

⁴ Testimony of Robert Cintron, Network Ops VP of USPS, before Senate Committee on Homeland Security and Government Affairs: <http://www.hsgac.senate.gov/download/robert-cintron-testimony-2017-05-25>.

⁵ http://www.upu.int/uploads/tx_sbdownloader/S10TechnicalStandard.pdf

⁶ *Australian Financial Review*, August 4 2017, 'Near miss: terror suspects built bomb using parts sent through the post by ISIS'; *The Australian*, 6 February 2017, 'Border Force crackdown on illegal firearms arriving as parts'.

Compliance Costs

In its submission to the Senate Inquiry, Australia Post raised concerns with the costs it would incur to comply with the 2012 Taskforce transporter model. Amazon is, however, proposing a modernised transporter model, as described below, that can be implemented in conjunction with the upgrades Australia Post is already required to make under its UPU obligations. This model will result in lower costs to Australia Post than the Taskforce model.

For example, the 2012 Taskforce model envisaged a two-payment system where goods would be warehoused at the border prior to the collection of GST. By contrast, the modernised transporter model is a one-payment system that eliminates the warehousing of goods, greatly reducing the cost of storage, customer contact and returns for non-acceptance as envisaged in the 2012 model.

Modernised transporter Model - Transaction Process

The steps in the modernised transporter model process are summarised in the attached *Flowchart*.

An example of a transaction under the modernised transporter model is as follows:

- 1 **Purchase:** A customer purchases a LVIG for importation into Australia.
- 2 **Price:** The supplier collects payment for the goods (including transport charges) from the customer.
- 3 **Transporter selection:** The supplier has contracted or contracts an express carrier (e.g., DHL, FedEx) (for 'cargo') or a postal operator (e.g., United States Postal Service) (for 'non-letter mail') to transport the LVIGs to Australia. The express carrier or postal operator obtains the information needed to enable importation of the goods from the supplier, including the description of the goods, the price paid for the goods, the indicative weight of the package and the destination.

Transporter charges: The express carriers and Australia Post charge the suppliers or the overseas postal operators their delivery charges plus an amount to cover the GST payable on the goods when they are imported into Australia. The supplier remits the transporter charges to the transporter.
- 4C **Cargo electronic data:** The overseas express carrier transmits to the domestic express carrier the information obtained from the supplier, including the description of the goods, the price paid for the goods, the indicative weight of the package, and the transporter charges paid.
- 4M **Non-letter mail electronic data:** The originating postal operator electronically transmits to Australia Post the information obtained from the supplier, including the description of the goods, the price paid for the goods and the indicative weight of the package.

NB: Australia Post will need to remit the GST on LVIGs originating from Group 1 countries from 1 July 2018. Australia Post will also need to remit the GST on LVIGs originating from other Group countries as and when the UPU changes are implemented.
- 5C **Cargo collection of GST amount:** The domestic express carriers notify their overseas express carrier partners that their transporter charges must include an amount of GST that the domestic express carriers have to pay on the price of the goods that are being delivered to them for importation into Australia.
- 5M **Non-letter mail collection of GST amount:** Australia Post notifies the overseas postal operators⁷ or carrier partners that their transporter charges must include an amount of GST

⁷ For postal operator to postal operator, Article 20 (item 3) of the Letter Post Manual and the Parcel Post Manual (UPU) allows Australia Post to charge a fee based on the actual costs of clearing the goods through Customs. This allows Australia Post to charge an originating postal operator an amount to cover its GST liability

that Australia Post will have to pay on the price of the goods that are being delivered to them for importation into Australia.

- 6C **Cargo data to DIBP:** Domestic express carriers lodge self-assessed clearances (SACs) with DIBP (in line with current reporting requirements), allowing inspection on a risk assessment basis, prior to clearance, once the goods are landed.
- 6M **Non-letter mail data to DIBP:** Australia Post reports the imported goods under a simplified electronic declaration using the barcode information, as electronically transmitted to Australia Post by the originating postal operator,⁸ without any need for warehousing the goods at the border. In line with current security requirements, DIBP can inspect selected non-letter mail items, on a risk assessment basis, at the incoming international mail centres.
- 7C **GST payment:** The domestic express carrier self-assesses the GST liability and remits the amount payable to the ATO, as part of the normal Business Activity Statement (BAS) return process.
- 7M **GST payment:** Australia Post self-assesses the GST liability and remits the amount payable to the ATO, as part of the normal BAS return process.⁹
- 8C **Cargo delivery:** The domestic express carrier delivers the goods to the purchaser. To effect delivery, the customer or recipient has no further payments to make.
- 8M **Non-letter mail delivery:** Australia Post delivers the goods to the purchaser. To effect delivery, the customer or recipient has no further payments to make.

on the importation of the goods. These obligations can be settled as part of the commercial arrangements between the two postal operators. Under Article 20 (item 3) some postal operators (e.g. US Postal Service) allow a 'fully landed' postal price to be charged by the originating postal operators, and a similar approach can be used by Australia Post to collect an amount to cover its GST liability.

⁸ Refer to Step 4M for the transitional phased approach.

⁹ Ibid.

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