
F Foreign indirect tax arrangements

F.1 Foreign arrangements

To inform discussion on the issue of an appropriate LVT, the Commission has examined how mail processing and tax collection systems work in other countries.

Foreign thresholds

Most other countries have set thresholds below which they do not attempt to collect taxes. The thresholds can vary from around €10 (A\$13) in some European Union (EU) countries to NZ\$400 (A\$308). Hong Kong does not impose any duty or taxes at all on imports. Some countries, such as Turkey and Israel, do not have a threshold, but exempt certain goods. Some examples of threshold levels are set out in table F.1.

Gift concessions

Many foreign countries have different thresholds for gifts. In the United Kingdom items entering as gifts worth £40 (A\$62) or less are free from duty and import value added tax (VAT), but not excise. Goods entering Switzerland as gifts up to a value of SFr100 (A\$109) are exempt from duty and VAT. Canada exempts the first Can\$60 (A\$57) of the value of a gift. In New Zealand customs charges are not payable on the first NZ\$110 (A\$85) in value of an unsolicited gift and no revenue is collected if the total amount of revenue owing would be less than NZ\$60 (A\$46). During informal discussions with the Commission, it was noted that parcels sent from some businesses to consumers in other countries appeared to be routinely marked as gifts, but that this description was not automatically accepted by foreign customs authorities.

In Australia, prior to 2008, the first \$200 of the value of the gift was duty and GST free. The concession did not include tobacco products in excess of 250 cigarettes or 250 grams of tobacco or alcoholic liquor in excess of one litre. This concession was revoked from 1 October 2008 because its use significantly decreased following the

change to the LVT threshold in 2005, and to remove the inconsistency in the treatment of alcoholic beverages and tobacco (Customs 2008).

Table F.1 Thresholds in other countries

<i>Country</i>	<i>Threshold in A\$</i>	<i>Threshold^a</i>
Canada	19	Importer does not have to pay duties and taxes if a parcel is worth Can\$20 (A\$19) or less except for alcohol, tobacco, and, in some circumstances, books, or magazines.
United Kingdom	28 (VAT) 208 (duty)	Consignments valued at £18 (A\$28) (£15 from November 2011) or less are free from import VAT (but not excise duty). Duty is payable if the value of the goods is over £135 (A\$208), although the duty is waived if the amount of duty is less than £9 (A\$14).
Chile	28	US\$30.
Netherlands	30 (VAT) 201 (duty)	No duty or turnover tax on shipments valued at up to €22 (A\$30). No duty on shipments valued at up to €150 (A\$201).
Indonesia	47	US\$50.
Switzerland	68	Import VAT is not collected if the tax would be less than SFr5. This is usually equivalent to a parcel value of SFr 62.
China	72	First Y400 (A\$58) of value for personal postal articles from Hong Kong and Macao is duty free. First Y500 (A\$72) of value for personal postal articles from other places.
Japan	115	¥10,000.
Korea	130	Exempt if the total value of the goods including freight and insurance is less than W150,000 and goods are for personal use.
Malaysia	140	US\$150.
United States	187	US\$200.
Singapore	303	S\$400 based on the value of the goods.
New Zealand	308	GST and duties not collected if they would be less than NZ\$60 (A\$44) in total. The threshold would be NZ\$400, in terms of the value of the goods, if no duty were payable.
Australia	1000	A\$1000.
Hong Kong	Not applicable	No entry threshold limit — imports of any value come in duty and tax free.

^a Exchange rates as at 31 May 2011. The thresholds quoted often exclude goods such as tobacco and alcohol.

Sources: APEC (2010); NZ Customs (2011); various national customs services.

Setting and administering thresholds

The Commission has sought information on how other countries have approached the issue of setting a threshold. However, there is very little public information available. Only the United Kingdom and New Zealand appear to have recently completed a publicly visible review of their thresholds, although the Commission understands that some other countries have also recently reviewed their LVTs, but within Government departments. In considering the appropriate threshold, it appears that some countries emphasise the economic costs and benefits of the threshold, while other countries place more emphasis on equity, law enforcement, or the protection of domestic industries.

In communications with the Commission, the OECD has said that discussions around the issue of ‘low value consignment relief’ are well known to it, but to date the OECD has not been able to bring forward any work on the issue. Similarly, some material on threshold levels has been submitted to an APEC committee. A recent statement indicated that APEC officials had been instructed to:

Identify ways to simplify customs procedures, and reduce costs for importers and exporters, including by developing a plan by November 2011, building on best practices in effect in each of our economies, to ensure wider implementation of commercially useful de minimis values, which exempt low-value importation from revenue collection ... (APEC 2011, p. 1)

The Commission has also sought information about methods of processing international mail parcels. While other countries have different approaches to the process, the initial sorting of international mail parcels in other jurisdictions appears to be a manual process, similar to that used in Australia. New Zealand Customs has observed that:

Customs, like every other customs administration, has to manually risk assess and process a large volume of international parcels post. It is not practicable to assess and collect all possible duty payable in terms of additional staff required or delays to goods clearance. Establishing a de minimis requires judgements over the trade off between integrity of the taxation system and the costs and practicalities of revenue collections. (NZ Customs 2011b, p. 4)

European Union

The thresholds applied by members of the European Union are guided by a Council Directive. It requires member states to exempt goods of a total value not exceeding €10, but allows them to grant exemption for goods valued at between €10 and €22 (EU 2009a). Thresholds within the European Union only affect parcels entering European Union countries from outside the European Union. Duty is not applicable on the movement of goods within the European Union and other arrangements have

been made to deal with collection of VAT on cross-border transactions. Implementation of the European Union directive is left to individual countries.

In its 2011 Budget, the Government of the United Kingdom announced that it would reduce the level of the threshold in the United Kingdom from £18 to £15 from November 2011. The decision followed concerns that some UK retailers had been taking advantage of the low value consignment relief by selling goods over the internet, VAT-free, from subsidiaries based in Jersey and Guernsey. The estimated cost to the Exchequer of this practice had risen from around £80 million a year to £130 million over the previous five years. In the past, the UK Government was reluctant to tackle the problem by cutting the threshold for imports because of the extra demands this would place on HM Revenue & Customs (HMRC) (House of Commons Library 2011). But more recently, in his budget statement the Chancellor of the Exchequer said that:

And we're going to tackle the exploitation of low value consignment relief that has left our high street music stores fighting a losing battle with warehouses in the Channel Islands. (Osbourne 2011, p. 15)

In a Tax Information and Impact Note outlining the change to the threshold, the low value consignment relief is described as an administrative simplification to reduce the cost for businesses, HMRC, Royal Mail, express carriers and consumers. It said that there are no figures available that indicate how many individual consumers import goods or how they will be affected financially. The one-off and on-going compliance costs for fast parcel operators involved in importing goods to the United Kingdom were considered to be negligible, although no costings were provided. Similarly, no figures were provided on the cost to HMRC, and the impact on the Royal Mail was described as limited (HM Treasury 2011).

The UK Government will revisit the level of the threshold in its next budget if discussions with the European Commission do not produce a workable solution to the problem of the relief being exploited for a purpose for which it was not intended (HM Treasury 2011).

In the United Kingdom, parcels arriving from within the European Union are generally treated as internal mail. For other international mail parcels, Royal Post/Parcelforce is responsible for initially identifying items which might be of interest because of their value or border security issues. If a parcel is valued at above the threshold, HMRC key in to their system data about the parcel, identify the customs code from a simplified schedule of duties and classifications and produce a label and bar code identifying the amount of duty and VAT due on the parcel. Royal Mail/Parcelforce then pays the taxes, enters the parcel into its system and sends the addressee a letter advising them of the taxes due and the Royal Mail/Parcelforce

clearance fee of £8 (A\$12), or £13.50 (\$A21) for express parcels. The taxes and fees can be paid online, by phone, or over the counter at a Royal Mail/Parcelforce depot before the parcel is delivered. This process usually delays the delivery of a parcel by one or two days unless the consignee is an account holder, in which case the goods are delivered immediately and the account is charged directly.

HMRC also has special arrangements that allow some large overseas traders to charge, collect and pay over to HMRC the import VAT for goods purchased on the internet (box F.1). In some cases the arrangements operate through Memoranda of Understanding (MOU) with customs and postal authorities in the Channel Islands, Hong Kong, Singapore and New Zealand. The Commission understands that pre-paid parcels under the MOUs are segregated from normal mail and the pre-payment checked before they are passed on to Royal Mail for delivery (HMRC 2010).

Canada

In 2009, Canada Post Corporation received 33 million parcels from foreign postal administrations (Canada Post 2010). A similar number of express courier parcels enters Canada each year. The current process for handling postal parcels is highly manual and labour intensive.

Parcels received from outside Canada are sent to a Canada Border Services Agency (CBSA) mail centre where border services officers screen the parcel to decide if any duties and taxes are due. CBSA officers enter the description and value of the goods into its automated system which calculates any duty and taxes owing and prints the information on a label which is attached to the parcel (CBSA 2011b). Canada Post Corporation collects the taxes plus its own customs handling fee of Can\$8.50 (A\$8) during delivery (Canada Post 2011).

Box F.1 Amazon Global Program

The Amazon Global Program estimates duty, taxes and customs clearance costs on a customer's behalf during checkout. When products are shipped to one of over fifty eligible countries using eligible shipment options, an Import Fees Deposit is collected for the shipment. The funds are used by the carrier or another agent to pay the import fees on the customer's behalf to the appropriate authorities of the destination country.

If the actual import fees (paid by carrier on behalf of the recipient to the customs and tax authorities of the destination country) are less than the Import Fees Deposit collected by Amazon they will refund the difference. If the fees exceed the Import Fees Deposit the purchaser is not charged any extra.

Source: Amazon (2011).

Parcels from Amazon can have taxes pre-paid and are identified by a sticker displaying the Amazon GST registration number (box F.1). Some other online purchases by Canadians from US retailers have taxes and duties paid at the time of purchase and then enter Canada by courier through an expedited delivery system where the courier acts as the importer of record (CBSA 2011b).

This process is now being streamlined. Canada Post is currently undertaking a Postal Transformation Project aimed at transforming their operations by replacing the ageing equipment, buildings and technology to make their operations as efficient as possible (Canada Post 2010). The CBSA and Canada Post are working together to modernize the assessment and processing of international mail to address gaps and introduce technological advances. In 2011-12, the CBSA will begin developing a new information technology system that will address the risk assessment, financial reconciliation and overall enforcement needs of the Postal program. The new system is expected to be completed by December 2013 (CBSA 2011a).

Canada is involved in the Mails Electronic Data Interchange and Customs Integration program (MEDICI) which is being developed by the International Post Corporation (of which Australia Post is a member). The MEDICI program allows participating postal operators to capture and electronically exchange the data needed for each mail item to clear customs and for taxes to be assessed. The data captured are the data required for CN22 or CN23 forms, together with whatever additional information is required for the identification of the postal item. The data is shared with customs authorities and can be used by customs to screen parcels (IPC 2011). Canada Post, Deutsche Post DHL, Royal Mail and the United States Postal Service have been both capturing and sending data, while Le Groupe La Poste, Hong Kong Post and South Africa Post receive data (IPC 2010).

New Zealand

New Zealand has a de minimis under which the New Zealand Customs Service (NZCS) does not charge duty and GST where the total revenue payable on any one importation (except for alcohol and tobacco) is less than \$60. Goods valued at less than NZ\$400 (A\$308), and on which no duty is payable, are exempt from GST. The threshold is lower where both duty and GST are payable.

The New Zealand Government recently reviewed the threshold applying to imported goods (NZ Customs 2011a). In an Issues Paper calling for public submissions, NZCS examined the operation of the de minimis (threshold) and the potential costs and benefits of any change. It concluded that 'the de minimis appears to be set at about the right level, based on the costs of revenue collection and

compliance in the airfreight sector’ (p. 14). A subsequent report to the Minister recommended that:

... the de minimis not be changed at this time. A higher de minimis would benefit importers and the fast freight sector, but the Crown would have to carry all of the consequential risk to its revenue base. If the current cargo reporting system for low value express airfreight had to be adapted to support a higher de minimis there would be a negative impact on risk management over non revenue items (eg illicit drugs and their precursors). A lower de minimis would not produce worthwhile net gains in Crown revenue and would increase compliance costs for importers. (NZ Customs 2011b, p. 1)

In March 2011, the New Zealand Customs Minister announced that the de minimis level, based on the taxes which would otherwise be collected, will remain at NZ\$60 (A\$46). The de minimis will next be reviewed as part of the implementation of the Joint Border Management System (Williamson 2011). In the longer term Customs will work with Inland Revenue to explore other methods of collecting GST revenue on imported goods (NZ Customs 2011b).

Currently, New Zealand Post is responsible for the initial identification of mail items which may be of interest. For private importations identified as exceeding the de minimis, a Customs officer creates a Personal Import Declaration in the Customs’ goods processing system and Customs contacts the importer to arrange payment of the duty and a NZ\$22 processing fee. For commercial postal consignments, New Zealand Post or the importer’s broker clear the parcels as commercial importations which attract a NZ\$25.30 import entry transaction fee and a NZ\$12.77 biosecurity levy. For air cargo parcels the importer, customs broker or express carrier is responsible for calculating the duty and taxes which are paid to NZCS along with an inward cargo transaction charge of NZ\$30.66.

United States

In the US Congress there have been several recent proposals to increase the de minimis. In 2009, the proposed *Customs Facilitation and Trade Enforcement Reauthorization Act of 2009* was introduced in the Senate. The proposal would have increased to US\$500 (\$A447) the retail value of articles that may be imported duty-free into the United States. In 2010, the proposed *Customs De Minimis Adjustment Act of 2010* was introduced in the House of Representatives. It proposed increasing the de minimis to US\$1000 (\$A934). Neither of these acts passed before the end of the 111th Congress.

In 2011, a new bill was introduced in the House of Representatives proposing to amend the US Tariff Act to increase the de minimis to US\$1000 (\$A934). The bill is being cosponsored by over fifty Democrats and Republicans.

A recent examination by Hufbauer and Wong, from the Peterson Institute for International Economics, of the broad effect of changing the de minimis in the United States, concluded that the benefits of a high threshold outweigh the costs. A paper recently submitted by the United States Government to APEC stated that raising the de minimis threshold for shipments entering the United States from US\$200 (\$A187) to US\$800 (\$A747) would produce net benefits to the United States.

While a higher de minimis exemption might reduce government revenue, it will also cut overall compliance costs, reduce delivery times, and encourage low value imports, especially direct purchases by consumers and small business firms from foreign suppliers. We estimate that the annual net gain from raising the de minimis threshold on the existing volume of US shipments would be about \$26 million, taking into account the cost savings to all affected parties – customers, express firms and U.S. Customs and Border Protection (CBP). In other words, the loss of tariff revenue and fees would be more than offset by the savings to the multiple parties in the delivery chain. (Hufbauer and Wong 2011, p. 1)

The US Customs and Border Protection Services is understood to be undertaking a cost accounting study that will assess the savings that could result from raising the de minimis threshold. However, details of the study are not yet available (Hufbauer and Wong 2011).

The procedure for collecting duty on incoming international mail are similar to those in other countries with low thresholds. Parcels are forwarded to one of US Customs and Border Protection (CBP) International Mail Branches for clearance. If the item is valued at above the US\$200 threshold, but less than US\$2000, a CBP official will prepare the paperwork for importing it, assess the proper duty, and release it for delivery. If any duty is owed a US\$5 processing fee (described as a nominal fee) is also charged. The duty and CBP processing fee are paid to the post office upon delivery. The US Postal Service also charges a Postal Service fee of US\$5.35 as partial reimbursement for its extra work in clearing parcels through CBP and delivering them. Parcels shipped by courier are expedited through CBP by a customs broker engaged by the carrier.

US Sales Tax

It is also of interest that in the United States the non payment of state sales tax on some products sold interstate by online retailers has led to a somewhat similar

debate around tax leakage and the impact of tax arrangements on competition between conventional and online retailers.

The United States does not have a national VAT/GST or sales tax regime. Instead 44 of the states, and the District of Columbia, each impose their own sales tax. The tax rates vary from state to state, but generally the state governments impose a sales tax of 4-7 per cent. The sales tax is second only to personal income taxes as the largest source of state revenue. Further, within each state, local government bodies also charge sales taxes which are added on to the state rate. For example, the state of Ohio has a state sales tax rate of 5.5 per cent, but after the county taxes are added there are six different rates of sales tax within the state ranging from 6 per cent to 7.75 per cent (Ohio 2011).

The US Supreme Court has ruled that states cannot require sellers to collect and remit sales tax unless the seller has a physical presence in the destination state. This has allowed online retailers in the United States to avoid having to pay state sales taxes on their interstate sales:

Local brick-and-mortar stores operate at a competitive disadvantage with remote sellers who don't collect or pay taxes. Local stores find themselves serving as showrooms for Internet and catalogue sellers. Prospective customers check out the merchandise locally but buy the product online or through a catalogue to avoid paying sales tax. Local merchants are at a competitive price disadvantage simply because remote sellers do not collect sales tax. (Streamlined Sales Tax Governing Board 2011, p. 1)

State governments in the United States have attempted to address this issue through several approaches. Some jurisdictions are applying a 'use' tax on the use in their state of goods which have been purchased in another state by requiring consumers to declare the amount on their annual income tax return. A Streamlined Sales and Use Tax Agreement has been implemented in twenty four states to streamline collection and enforcement procedures. Some states have taken legal action against online retailers. Texas, for example, has been pursuing Amazon for US\$269 million in uncollected sales tax (WSJ 2010). Some states have also amended their legislation to improve their ability to bring online retailers within their tax base. At the national level, a Main Street Fairness Act has been proposed to overcome the legal impediments created by the earlier Supreme Court ruling.

More recently, Amazon indicated that it would push for a voter initiative in California to eliminate sales tax for virtual sellers with only a modest physical presence in the state (Richtel and Kopytoff 2011). Subsequently, an agreement was reached under which Amazon will start collecting sales tax in California in September 2012 (Streitfeld 2011).