



23 March 2011

Chairman  
Productivity Commission  
Level 28, 35 Collins Street  
Melbourne VIC 3000

**By facsimile: (03) 9653 2199**

Dear Sir

**Inquiry into the Economic Structure and Performance of the Australian Retail Industry**

We write to request that you give priority in this inquiry to examining ways and means of eliminating the GST tax free threshold which allows imported goods (except tobacco and alcohol products) at or below \$1000 in value to escape the application of GST, duty and customs clearance fees. We have written to the Hon Bill Shorten in similar terms.

Given the breadth of the Inquiry on the one hand and the urgency associated with the GST issue on the other hand, it would appear sensible for the Commission to consider prioritising the issues to be addressed and to escalate the GST matter for immediate attention.

The need for urgency is demonstrated by the preliminary analysis of survey returns we have received in response to a survey distributed by NRA to small and medium retailers who operate in some of the retail sectors that are most vulnerable to the GST exemption. Additionally we note the failures of the Red Group and Manacomm which are in part attributable to the tax concessions afforded foreign retailers and which support the need for a quick resolution of the issue.

The survey analysis of 156 returns received thus far suggests that thousands of small to medium Australian businesses are being seriously and negatively impacted by the continuation of the exemption. The characteristics of these businesses are:

- Invariably they are businesses which import the great majority of product they sell
- The products that they sell are also available for purchase from foreign retailers
- Most of the products they sell are under \$1000 in value

A consequence of these characteristics is that both our Australian retailers and the foreign retailers are selling the same products to the same consumers. That is, there is direct competition between them but not on a level playing field given that the current Australian tax and customs regime gifts the foreign retailer a tax break in the order of 15% to 20% depending on whether duty is applicable.

In more detail, the survey results show:

Impact on sales, growth and employment:

96% of retailers responding believe that the continued operation of the threshold has negatively impacted turnover, growth and employment. Additionally all respondents report that the negative impact of the threshold has been rapidly increasing over recent years and they expect it to further increase. 46% of retailers indicated that the negative impact extended back for 3 years or more

Estimate of Sales Lost to Foreign Competitors as a Result of the Tax Free Threshold:

- 12% of retailers estimated the loss of sales at more than 50% of total retail turnover;
- 19% of retailers estimated the loss of sales at more than 30% and less than 50% of total retail turnover;
- 26% of retailers estimated the loss of sales at more than 20% and less than 30% of total retail turnover;
- 18% of retailers estimated the loss of sales at more than 10% but less than 20% of total retail turnover.

Estimate of Cost to Retail Sector of the Tax Free Threshold:

76 retailers provided dollar estimates of sales lost as a result of the GST exemption – of these:

- 54% of retailers estimated that sales lost amounted to more than \$100,000 per annum
- 20% of retailers estimated that sales lost amounted to between \$50,000 and \$100,000 per annum

In general terms, NRA estimates that the total value of purchases below the threshold from foreign retailers is in the range of \$5Billion to \$10Billion per annum. This means that GST leakage is in the order of \$500M per annum and lost or foregone duty and customs clearance fees is in the order of \$200M per annum. Importantly on-line trading is growing exponentially with annual growth no less than 10% per annum expected.

We also note that Treasury's Tax Expenditures Statement 2010 issued in January 2011 estimates that in the financial year 2010-11, \$460M in GST was foregone as a result of the operation of the low value exemption for imported goods. This amount is estimated to rise to \$610M in the 2013-14 financial year.

Retail is an importing sector:

In the case of survey respondents, 80% of retailers imported more than 90% of their product. These retailers are selling the same imported product to the same customer as are the foreign retailers. The Australian based retailer however is required to pay GST, duty, customs fees, the cost of GST administration and compliance, and the cost of compliance with the Australian Consumer Law.

Impact of Tax Free Threshold on Employment:

The great majority of respondents reported that employment has contracted as a result of the threshold and the competition from cheaper low-value imports. If the survey returns are representative of particular sectors of retail we estimate that the threshold has already cost over 2,000 jobs in these particular sectors alone. On average each survey respondent has shed between 1 to 2 jobs which they attribute to the tax free threshold.

It is NRA's view that there is a compelling case for the Productivity Commission to prioritise the tasks ahead of it in the conduct of the retail inquiry and to elevate the discussion about the GST tax free threshold ahead of all other matters. While there may be differences in approach, we believe the retail sector is unanimous in wanting this matter urgently addressed. With respect, we say that the key facts associated with the operation of the exemption are largely self-evident and the case for change is impeccable. What is needed most is an urgent discussion about methods of implementation which will ensure the most efficient collection of GST, duty and customs fees.

Should you require any further information from us, or believe it will be helpful for us to meet with yourself or your staff, please do not hesitate to let me know.

Regards

*[signed]*

Gary Black  
Executive Director