

## **Comment on the Productivity Commission Draft Report, Economic Structure and Performance of Australian Retail, July 2011.**

This paper aims to question some findings of the Commission regarding the Low Value Import Threshold.

Productivity Commission Overview.....

Key Points..

- 1."The current LVT (Low Value Threshold) in principle should be reduced to a low value to ensure tax neutrality."
2. "As the Threshold is lowered, costs of collection increase significantly At very low thresholds (for example \$20), the costs of collection would exceed tax revenue by over three to one."
3. "The processing systems for incoming parcels to Australia need to improve as has occurred in othe countries. The Government should investigate this with a view to then reducing the LVT in a cost effective way."

Point 1....Agreed, Australia must be in step with other countries on the level of LVT such as our main trading partners, USA, UK, China.

Point 2...Disagree. The spread sheet attached is drawn from the Commissions own research figures concerning the breakdown of imported parcels under \$1,000.

Quote..”Reducing the Threshold to \$100 would raise an additional \$470 million from about 15 million parcels, but would cost consumers and business approximately \$715 million still far exceeding the revenue raised.”

The figures do not include Customs Collection Charges, which are very significant.

The spread sheet shows almost 12 million parcels, not 15 million, yet still shows almost 1 billion dollars revenue.

If the Threshold were to be \$20, then the second chart (spreadsheet attached) would boost the revenue to a staggering 2.645 billion.

The total employee force of the Customs Department drawn from the Australian Customs and Border Protection Service Annual Report 2009-10 indicates an average personell number of5,488.9 persons.

The total salaries and wages figure quoted is \$318,170,000.

Extra revenue created on Chart 1 which excludes parcels under \$100 shows \$988,506,250.

The Customs Service staff could be expanded three fold on these figures alone.

Extra revenue created on combined Charts with LVT at \$20 shows \$2,645,250,000.

Where is the justification for Key Point 2?

### **Australian Compliance and Safety.....**

Currently, goods imported into Australia under the \$1,000 Threshold are not checked for compliance with Australian Standards in health and safety.

These imported goods are invariably on-sold to the Australian public on E-Bay.

Where is the check on Compliance Standards.

Australian retailers have to comply with a miriade of Standards which are only granted after proof of compliance such as electrical, health and safety checks.

Australian retailers are considerably disadvantaged competing with the end user importing the same goods. More and more end users will desert Australian retailers and flock to overseas stores because of the disparity in retail price.

Australian importing business have to pay GST on import, Customs Duty, Handling Charges and comply with Australian Standards.

The end user importing the same product as available in Australian retail stores for personal use will not pay country of origin domestic tax, Australian GST, Customs Duty, Customs Handling Charges, or the cost of compliance.

The difference on average is a 40% - 50% discount on Australian retail prices.

The Australian retailer cannot simply reduce margin to compete as is stated in the press. The cost price is determined by the wholesaler importer, who again has to pay the many taxes, fees, charges and compliance.

Left unchecked, the overseas purchases will snowball and Australian retailers will shed staff, gradually close and dollars sent offshore will be lost forever.

### ***In Summary....***

The focus of the Draft Report tends to be concerned about the implications to the end user (consumer) as well as the business retail group.

The terms of reference are only to do with the Australian Retail Industry, not the end user.

The end user buying overseas is concerned mainly with price, not "I want it now". If the end user were to be informed Customs may take up to a week to clear imported parcels, they would accept the delay. Such delays are experienced by retailers on a daily basis.

Possibly the introduction of a lower threshold would be best served by a tiered structure, first year \$500, then \$300 and \$100. The world average is less than \$100.

Submitted 26<sup>th</sup> August 2011 by.....

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**Estimated number and value of international mail parcels entering Australia 2010 - 2011.**

**Detail calculations using a \$100 LVI Threshold.**

Value Range	Average	Estimated number	Value	GST
0-100		33,050,000		
101-200	150	5,930,000	\$889,500,000	\$88,950,000
201-300	250	2,520,000	\$630,000,000	\$63,000,000
301-400	350	1,420,000	\$497,000,000	\$49,700,000
401-500	450	910,000	\$409,500,000	\$40,950,000
501-600	550	540,000	\$297,000,000	\$29,700,000
601-700	650	410,000	\$266,500,000	\$26,650,000
701-800	750	90,000	\$67,500,000	\$6,750,000
801-900	850	60,000	\$51,000,000	\$5,100,000
901-1000	950	70,000	\$66,500,000	\$6,650,000
		11,950,000	\$3,174,500,000	\$317,450,000
Add Duty use low estimate average 2.5% on 3.174.5m.				\$79,362,500
Add GST on Duty				\$7,936,250
Add Parcel Handling Fee \$48.85 by 11.95m.				\$583,757,500
				<b>\$988,506,250</b>

**Detail Calculations using \$20 LVI Threshold**

Productivity Commission estimate 30,000,000 parcels if Threshold set at \$20.

0-100	50	30,000,000	\$1,500,000,000	\$150,000,000
Add Duty @ 2.5%				\$37,500,000
Add GST on Duty				\$3,750,000
Add Handling Charge \$48.85 on 30m				\$1,465,500,000
				<b>\$1,656,750,000</b>
				<b>\$988,506,250</b>
Conservative estimate of Revenue lost @ \$1,000 Treshold.				<b>\$2,645,256,250</b>