

2 September 2011

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

Dear Sir,

**Inquiry into the Economic Structure & Performance of the Australian Retail Industry - Tax Free Threshold**

The Fashion Distributors Association of Australia (FDAA) is an industry association of independent distributors servicing the premium fashion product needs of the majority of small & large retailers, including online retailers, in that segment in Australia. We are at the forefront of understanding the damaging impact of the high tax free threshold. We believe it is imperative to reduce the threshold to below \$100 thereby removing a tax loophole that our overseas competitors are exploiting to the detriment of Australian retailers' current & future competitiveness.

Specifically, we would make the following comments:

1. This GST and Customs Duty loophole is distorting the Retail competitive environment causing systemic damage. This damage will accelerate quickly and a swift response is needed.
2. Online retailing is fast becoming a significant channel of product to market & it represents a seismic shift. Importantly Online Retailing will produce significant productivity gains for the Retail industry. Far from nurturing online retailing, the threshold is stifling Australian Online Retailers as they have a substantially higher cost base than the International Online Retailer.
3. Whilst Australia has an enviable record of removing trade barriers and becoming internationally competitive, reducing the threshold is not reversing this and becoming more protectionist – it is a tax loophole that needs to be closed.
4. Eliminating this loophole is understandably unpopular. All consumers wish to avoid costs and in particular taxes. The Public Interest, both short & long term is the overarching consideration. The Public Interest insists that the tax burden is spread equitably, that tax loopholes are closed, that Government policy should not distort the competitive fabric, and Australia is protected against unfair international competition
5. The \$1000 threshold is an anachronism from simplifying importation prior to the emergence of Internet, e-Commerce & the Internationalisation of Retailing. It has outlived its usefulness & is now an impediment to our Retailers, both online & bricks & mortar, being internationally competitive

6. Tax forgone calculations are being dramatically understated:
  - a. The tax forgone is not just a raw GST & Customs Duty on the goods imported. There is a compounding aspect because of the local sale forgone. For instance a \$100 garment sold online from overseas avoids \$10 in customs duty & \$11 in GST. A total of \$21.00. However if this garment had been sold by an Australian Retailer the price would be around \$155. Assuming the duty paid by the importer was \$9, the GST in the \$155 would be \$14.09. The actual tax forgone is in fact \$23.09, not \$21.00. Some analysis being tabled only considers a \$10 GST forgone. The real tax forgone is understated by 130%
  - b. The multiplier effect of sales forgone needs quantification. Moving sales offshore eliminates jobs and small businesses. What are losses to income tax & company tax?
  - c. There will be exponential growth in international online sales and the long term economic loss & social impact needs to be factored in
7. There is an unfairness in allowing a small, albeit growing, group to avoid GST & Customs Duty while the majority of shoppers carry theirs and by default the avoiders', GST & Customs Duty burden
8. Europe & the US have a low threshold. They see it as imperative to protect their retail economy from unfair competition. Australia is out of step.
9. The cost and difficulty of collection has been overstated. Australian Customs outsource their tax collection responsibilities to Australia Post, freight forwarders, the international parcel delivery companies and others. All have systems in place to collect Duty & GST for the current threshold of \$1000. This system does not change if the threshold changes. Of course it will need to be robust & scalable. The International companies like FedEx, DHL, UPS, TNT manage to collect Duty & GST in countries where the threshold is less than \$50 and have robust, scalable systems in place. Further these companies recover the cost of Duty & GST collection from the recipient of the parcel by charging a processing fee. This processing fee is a minimum of \$25 per parcel.
10. We dispute the contention that the cost of collection outweighs the tax revenue received because not all non readily quantifiable revenue factors have been considered. Notwithstanding this, even if dropping the threshold was revenue neutral, eliminating the damaging distortion is in itself in the Public Interest
11. Australia is seeing a coring of its broader capabilities and competitiveness as the Mining Sector subsumes all. Australia's mining success is obscuring problems in other sectors. The Retail sector needs support now & regardless of the unpopularity of the measure.

In summary, International Online Retailers are seriously damaging the Australian Retail sector including our own nascent Online Retailer by being allowed to exploit a tax loophole. This is out of step with Europe & the USA. The Government needs to move swiftly and decisively to close this before the damage compounds.

Yours sincerely

Stephan Cornips  
Chairman  
Fashion Distributors Association of Australia