

# **Protecting the integrity of the GST system**

**Submission to the National Commission of Audit**



**National Retail  
Association**

**Prepared by the National Retail Association**

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## Overview

The new Australian Government has inherited a budget position which it has described as being “in crisis”. It has tasked the National Commission of Audit with identifying options on both the revenue and expenditure sides of the budget. In order to assist the Commission with its work, this submission will deal with a specific area of the phase one scope of the audit, specifically:

### ***State of the Commonwealth’s finances and medium-term risks to the integrity of the budget position***

The retail sector is one of the nation’s largest employers. Through its success, retailing therefore both contributes to overall revenue and reduces pressure on welfare and other social services expenditure. However, the net positive impact of the retailing industry on the Federal Budget is under threat. The NRA and its membership believe the greatest challenge to retailers in Australia today is also one that presents a challenge to the integrity of the budget position tomorrow. That challenge is the erosion of the GST revenue base by the Low Value Import Threshold (LVT). Under existing arrangements, imports worth less than \$1000 are exempt from paying Goods and Services Tax, with this exemption triggering a further exemption from import duties and customs charges.

The NRA supports the recommendations of the GST Distribution Review Final Report relating to protecting the intended GST revenue base and preventing the leakage of GST revenue from online imports. This should involve taking immediate steps to make overseas suppliers to Australian residents liable for remittance of GST on all supplies of goods and services that would be subject to GST if purchased from a domestic supplier, and to reduce the low value import threshold to \$20.00.

Taking these steps will yield the following benefits:

1. Local retailers will be able to compete on a level playing field, whereas currently the operation of the GST and customs regime puts our businesses at an immediate price disadvantage compared with foreign competitors. Local retailers are not requesting special treatment or protection – we just want a fair go so we can properly compete on a level playing field. The current regime actively discriminates in favour of foreign companies.
2. Local jobs will be saved. An Ernst & Young report commissioned by NRA estimates that up to 33,400 local retail jobs will be lost if our local businesses continue to face this tax discrimination (see attachment 1 – The threshold question: Economic impact of the low value threshold on the retail industry). Note that these jobs are often likely to be the jobs of the least skilled and most vulnerable workers in our country, as the retail sector employs a high proportion of our nation’s least skilled workers, such as our youth, single parents, and senior workers returning to the workforce.
3. The Commonwealth Government will be making good its responsibility for vigilantly protecting the GST revenue base on behalf of the States and Territories, by closing an emerging loophole that has become significant since the original design of the GST;
4. The States and Territories will receive additional GST revenues, allowing them to invest in public services and easing their reliance on Commonwealth financial support. The value of

the potential GST revenues is \$819 million in 2013-14 and growing to over \$1 billion a year within the forward estimates, as forecast in an Ernst & Young Report commissioned by NRA (see attachment 2 – Impact of removing the LVT on GST revenues).

5. The Commonwealth Government will also receive additional revenues, by virtue of ensuring that this slice of the domestic economy is retained within Australia, rather than lost overseas, retaining its capacity to receive PAYG, corporate and other taxes received from the resulting domestic economic activity.

We recognise and respect the Government's pre-election commitment to increase neither the size nor the scope of the Goods and Services Tax. We believe it is critically important for the newly elected Government to give businesses and consumers confidence and certainty in their operating environments, and we believe this can best be achieved by the Federal Government maintaining its pre-election commitments.

However, this issue is not about increasing either the rate of the GST nor the range of goods and services to which it applies. This is about closing a loophole that rewards and encourages overseas retail, to the detriment of Australian businesses, workers and – ultimately, through reduced local competition – consumers. These are goods and services that, if purchased from an Australian on-line retailer, would attract the GST. However, there is a tax avoidance mechanism for overseas retailers that does not apply to Australian retailers. And this is impacting directly and indirectly on the long-term integrity of the Commonwealth Budget.

Now is the best time for the Commonwealth to take action to solve this problem. The size of the trade in question, both in terms of value and number of physical items imported, is growing exponentially, meaning that delays in resolving these issues will only exacerbate any difficulties in implementing solutions at some future point.

## About the submitter

The National Retail Association (NRA) is a not-for-profit industry organisation providing professional services and critical information and advice to the retail, fast food and broader service industry throughout Australia. NRA is Australia's largest and most representative retail industry organisation, representing more than 19,000 stores and outlets.

This membership base includes the majority of national retail chains, as well as independent retailers, franchisees and other service sector employers. Members are drawn from all sub-categories of retail including fashion, groceries, department stores, home wares, hardware, fast food, cafes and personal services like hairdressing and beauty.

The NRA has represented the interests of retailers and the broader service sector for almost 100 years. Its aim is to help Australian retail businesses grow.

## The long-term contribution of the Australian retail sector to overall tax revenue

The current state of trade in the Australian retail sector is necessary for understanding why this issue is important for the retail sector, and why urgency is such a critical factor in resolving this issue. Prevailing retail trading conditions, particularly for retailers relying on discretionary spending, are exceptionally difficult. Australian retail sales have remained depressed since July 2009.

Between 2011 and 2013, non-food retail sales growth averaged 1% to 2% per annum. To put this into context, this rate is slower than the 1990-1991 recession when non-food retail growth was 2.8%. The average retail sales growth over the twenty-six year timeframe is 5.5%, while the past 10 years average growth is 4.6%.

Retail spending is presently weak by historical standards due to a range of factors. Retailer viability is threatened because of the convergence of weak demand with rapidly escalating costs of operation including labour costs, rents, utilities costs and other increases across the supply chain. At a time when retail is in recession it is being asked to bear annual labour cost increases which are the highest ever experienced.

Retail sales have been negatively impacted by:

- Restrained consumer spending, as the focus of consumers shifts to savings and meeting rising costs of living. In the 12 months to September 2011, Australian households spent \$26.9 billion on utilities (electricity, gas and water), up 15%. Over the past 4 years since the GFC, the household saving ratio (percent of household disposable income) has been approximately 10%, more than double the average rate experienced over the prior 10 years.
- A decline in inbound tourism and a rapid increase in outbound tourism, partially driven by the high value of the Australian dollar. For the 12 months to November 2011, 7.8 million Australians travelled overseas. Over the same period, only 5.9 million tourists arrived in Australia on short-term visits. The net tourism drain is likely to be near 1.9 million people outflow for the 2011 calendar year. Only five years earlier, that figure was 600,000 people inflow of tourism.

Clearly, an increasing shift in retail trade to foreign online retailers is only one of many issues currently impacting the state of trade in the retail sector. Nonetheless, as Australian online retailers find it increasingly difficult to compete on price with foreign retailers who are not required to collect GST, nor to pay duty, nor to pay customs fees and charges, it is a significant and contributing issue and one that is likely to contribute significantly to the recent string of prominent and well-known Australian retail brands announcing store closures, reductions in staff or voluntary administration.

NRA therefore submits that this issue is critically important for the future of Australia's retail sector, and its capacity to contribute to the Federal Government's company tax, PAYG and other revenue streams. Given that the industry employs over 1 million Australians, we believe this issue must be addressed boldly and urgently in order to avoid the deterioration in both the revenue and expenditure sides of the budget that would result from business closures and job losses.

## Protecting the integrity of the GST revenue base

On 30 March 2011 the former Commonwealth Government announced a review of Australia's system of distributing the Goods & Services Tax (GST). The GST Distribution Review was conducted over the following 18 months and NRA made submissions and gave input over the course of the review. In October 2012 the Review Panel released its Final Report. The Final Report made a number of recommendations in relation to ensuring that the GST pool is as robust as possible. Specifically, the Final Report made recommendations to protect the intended GST revenue base and to prevent the leakage of GST revenue from online imports.

In Section 11.3 of its Final Report, the GST Distribution Review Panel noted that "a very important part of ensuring the adequacy of the GST pool is the ongoing 'care and maintenance' of the existing revenue base". The panel then identified two specific opportunities for augmenting the pool of untied funds received by the States in the short term, the first of which was preventing the leakage of GST revenue from online imports.

The Panel also noted that under Australia's federal model there is a potential misalignment in the legislative responsibility for protecting the GST base (held by the Commonwealth) and the revenue consequences of the tax base (faced by the States and Territories).

Consequently, the Panel recommended that:

*As the Commonwealth exercises its responsibility for GST compliance and protection of the base on behalf of the States [and Territories] it should ensure that it vigilantly approaches this task. GST compliance should not be cross-negotiated with other Commonwealth-State issues.*

NRA strongly submits that the Commonwealth should commit to preventing the leakage of GST revenue from online imports, consistent with the findings of the GST Distribution Review Panel. At the time the GST was introduced, online imports were an insignificant portion of the Australian market for goods and services so insufficient consideration was given at that time to determining how the GST would apply to online imports. It has only been in the period since the GST was introduced that online shopping, digitalisation and globalisation have grown to an extent that online imports are now a significant part of the goods and services base. There is no question that the GST was always intended to cover the types of physical products generally now imported online, or that the GST foregone is a significant and growing pool of lost revenue for the States and Territories.

NRA submits that, over time, the operation of the low value import threshold for the GST has been akin to an emerging loophole in the design and enforcement of the GST. The Commonwealth's responsibility to vigilantly protect the GST revenue base on behalf of the States and Territories should compel the Commonwealth to take steps to close such emerging loopholes. Indeed, it is telling that so many comparable jurisdictions around the world have taken steps to close such loopholes in their own consumption taxes following the rise of online shopping, digitalisation and globalisation.

**Recommendation 1: that the Commonwealth recognises its responsibility for vigilantly protecting the GST revenue base on behalf of the States and Territories by immediately committing to prevent the leakage of GST revenue from online imports.**

## Preventing the leakage of GST revenue from online imports

In 2011, the Commonwealth Government established the Low Value Parcel Processing Taskforce (LVPPT) to examine the issue of the current low value import threshold for the GST of \$1,000.00. The LVPPT's Final Report was released in September 2012. Both the LVPPT's Final Report and the GST Distribution Review Panel's Final Report conclude that the current low value import threshold for the GST is too high and is out of line with overseas standards.

The GST Distribution Review Panel's Final Report noted that comparable countries such as the United Kingdom and Canada have thresholds of approximately \$20.00. The Panel also noted that a much lower threshold is needed to minimise a number of practices currently used to avoid the GST, including the disassembly of products and the adjustment of invoices. In fact, the Panel stated that the current threshold is open to "flagrant abuse".

The Panel recommended that "the low value import threshold for GST be lowered to prevent the ongoing erosion of the GST pool" and that initially, "the threshold should be lowered so that it does not exceed \$500". The Panel recommended that this should occur as soon as practicable.

The LVPPT's Final Report noted that overseas suppliers already agree to voluntarily pay GST in certain circumstances, such as when parcels are worth more than \$1,000.00. It outlined a number of potential options for minimising erosion of the GST base by online imports, and made an initial attempt at comparing the potential revenue versus the costs of collection at various levels of the threshold. It suggested that if the threshold was reduced to \$500.00, then the additional GST collected would exceed the additional administration costs that would be incurred, leading to a net revenue benefit. It then suggested that lower levels of the threshold would become increasingly less attractive from a net revenue point of view, given the diminishing GST revenue compared to the increased administrative costs of collection. It did not identify a crossover point.

### Implementation

In December 2012, the then Commonwealth Assistant Treasurer released an 'interim response' to the LVPPT's Final Report. The response was to reject calls for an immediate reduction in the low value import threshold for the GST. Instead, the then government determined to undertake some business cases and determine possible implementation plans. These studies have continued under the current government.

With respect to the concerns around implementation, the NRA submits as follows:

#### Possible disruption to the processes of Customs and Australia Post

With respect to the possible disruption to the processes of Customs and Australia Post, NRA notes firstly that collecting the GST and other taxes on imports at the border is not the only option and it is probably not even the preferred long term solution. Additional analysis of the other options and solutions is further below.

NRA considers it important to highlight that this concern is predicated on a concession that there is already a system in place for managing the collection of GST on online imports – as currently applies to imports valued over the existing threshold of \$1,000.00. This means that any concerns around possible disruption must be related more to scale and volume than to any problems around technicality or process. That implies that there is potential, utilising the existing system, to immediately lower the threshold by some degree.

Undoubtedly, the number of parcels to be processed at the border under this system would grow exponentially with increasing reductions in the threshold. However, the former government's response to the LVPPT Final Report stated that currently only 20,000 parcels each year are being processed at the border under the existing system, suggesting an average of 55 parcels processed per day. Without engaging in a detailed analysis of the employees and other costs dedicated to processing those 55 parcels per day under the current system, NRA believes that this rate of processing is surprisingly low, reveals the extent of current rorting of the existing threshold, and that there is likely to be efficiencies in increasing the number of parcels processed from such a low base.

NRA also notes that there is a time dimension to concerns about volume, whereby the volume of parcels is growing exponentially over time. In other words, if volume is the greatest concern, then the imperative is to act immediately, rather than delay, because volumes are set to grow exponentially into the future.

This association is also concerned at the implied policy priorities revealed by the Commonwealth's consideration of the possible consequences of its decision. Either choice leads to severe disruption and inconvenience for one part of our economy.

On one side are our retailers – Australian companies built from the ground up by our entrepreneurs, risking the funds of our own investors and employing many of Australia's least-skilled workers, exposed fully to the pressures of global competition and currently put at a competitive disadvantage by the failure of government to respond quickly to changing markets and consumer trends.

On the other side are Customs and Australia Post – one a government agency and the other a government-owned corporation, both essentially immune to competition and in the case of Australia Post protected by a government-legislated monopoly (and incidentally profiting substantially from the recent rapid growth in the number of parcels being shipped).

As a question of policy, if the Commonwealth Government must choose between disruption to either group, it appears unequivocal to NRA that the Government should favour the potential prosperity of the retail sector and the employment of Australian retail workers over the convenience of the Government's own entities, protected as the government entities are in terms of their future and survival. Lifting employment, living standards and entrepreneurship over time in Australia ultimately depends on growing and strengthening the private sector economy.

### Consumer concerns

The Commonwealth's analysis of consumer concerns noted that, currently, online sales amount to only around 6 per cent of total retail sales in Australia. Furthermore, around three quarters of those online sales involved purchases from Australian retailers operating online, as opposed to foreign online retailers.

NRA is keen to highlight that it does not see this issue as one involving a conflict between online retailing and traditional 'bricks and mortar' retail stores. NRA believes that the future for retail will involve a complementary mix of retail stores and online channels. NRA's main concern is to ensure that when consumers shop online, they have the option of visiting an Australian online retailer rather than a foreign retailer. The current operation of the GST and customs regime puts our businesses at an immediate price disadvantage compared with foreign competitors. Local retailers are not requesting special treatment or protection – we just want a fair go so we can properly

compete on a level playing field. The current regime actively discriminates in favour of foreign companies.

For these reasons, NRA submits that this is not a consumer issue, rather it is an issue of tax equity and tax compliance involving the Commonwealth's responsibility to protect the integrity of the tax base against an emerging loophole that has become significant in recent years.

From the consumer perspective, NRA notes that these types of goods and services were always supposed to be subject to the GST when the Parliamentary debate occurred as to the scope and reach of the GST. Furthermore, in terms of any cost impacts, NRA notes that whilst the majority of online sales are from Australian online retailers, then the majority of transactions would see no cost impact. However, NRA also notes the findings of an Ernst & Young report it commissioned suggesting that over time, the proportions of online transactions going to domestic and foreign retailers will crossover. This adds weight to the NRA submission that it is imperative for the Commonwealth to act quickly, rather than to delay, in implementing solutions to this problem.

#### Potential revenues versus collection costs of the threshold

In relation to cost-effectiveness – whether the implementation costs would exceed the additional revenue collected at various levels of the low value import threshold for GST – the LVPPT's Final Report suggested that if the threshold was reduced immediately to \$500.00, then the additional GST collected would exceed the additional administration costs that would be incurred, leading to a net revenue benefit. On that basis, and given the Commonwealth's responsibility to protect the GST revenue base on behalf of the States and Territories, there seems a sufficiently strong argument for reducing the threshold immediately, at least to this level.

The business cases now being conducted by the Commonwealth may well examine in more precise detail the likely crossover point between implementation costs would exceed the additional revenue collected at various levels of the low value import threshold for GST. However, that approach assumes that the border collection regime is the only option going forwards. Furthermore, from the perspective of the Australian retail sector, there is a sense of urgency in relation to this issue caused by the recent dire trading conditions canvassed earlier in this submission.

Very frankly, while conceding that this issue is not the only issue affecting the Australian retail sector, NRA submits that this issue is a contributing factor to a significant number of Australian retailers, particularly in the small and medium enterprise categories, closing their doors, laying off staff, or planning soon to do so. NRA has members who are proposing to close their doors and lay off their staff when their current leases expire and they nominate this issue as the main reason for their business decision.

Noting that the previous Commonwealth Government accepted the policy arguments around equity and tax neutrality and the unfairness of the current regime, NRA submits that there is an urgent aspect to this necessary reform that precludes a reliance solely on a drawn-out approach involving business cases and implementation plans.

The way forward is for the government to consider other measures, including taking short-term and intermediate steps, that will lead to immediate revenue and equity benefits and will complement the longer term business cases and implementation plans the Commonwealth has announced in relation to the border processes. Specifically, the Commonwealth Government should consider solutions other than the collection of GST and other taxes on imports physically at the border.

## Options for immediate action

Both the LVPPT Final Report and the GST Distribution Review Final Report agreed that overseas suppliers may already agree to voluntarily pay GST to facilitate streamlined importation and processing of goods through customs. In section 11.3 of its Final Report, the GST Distribution Review Panel stated that it was of the view that “collecting GST and other taxes on imports physically at the border is not the long term solution” due to rapidly increasing volume of relatively low-value physical goods that are imported by individuals online, and the growing consumption of intangible goods and services (such as ebooks).

The Panel stated that the cooperation of overseas suppliers could be forthcoming for the bulk of transactions, but that incentives for compliance would need to be put in place with the direct liability approach. The Panel gave the example of making imports on which the GST has not been paid subject to confiscation, and released to a purchaser after the payment of some penalty in addition to the GST and any import duty owing. The Panel noted that if compliance is at its most problematic for low value items, the incentives for non-compliance are also least for such items and that the possible hardship or unfairness from confiscation of tax unpaid items is limited for low value items.

Consequently, the Panel recommended:

*That the Commonwealth and the States jointly examine as a matter of priority ways to secure the GST revenue base against its continuing erosion through the growth of imports purchased online.*

*This examination should include considering amendments to the GST law so as to make overseas suppliers to Australian residents liable for remittance of GST on all supplies of both goods and services that would otherwise be subject to GST if purchased from a domestic supplier. Such an approach would enable the GST exemption threshold for physical parcels to be reduced to a nominal level, no more than \$20 or \$50.*

NRA notes that the States and Territories appear to be universally in favour of this approach. NRA strongly submits that the Commonwealth should immediately commit to amending the law so that all goods and services that would be subject to the GST if purchased from an Australian supplier are treated equally regardless of whether they are purchased from an overseas supplier. NRA strongly supports the proposal to set the GST exemption threshold for physical parcels to the nominal level of \$20.00.

NRA also submits that the Commonwealth Government should take advantage of the option of legislating for voluntary compliance by overseas suppliers. Consistent with the findings of the LVPPT Final Report and the GST Distribution Review Final Report, NRA believes that most significant overseas suppliers may voluntarily agree to pay the GST if required under Australian law. This is an immediate option which could be introduced quickly, is substantially cheaper than many other solutions, is likely to substantially resolve the problem in the short term due to the dominance of major online suppliers, and would complement longer term solutions.

Currently, while the majority of online retail sales are purchased from Australian online retailers, it is also true to say that the retail purchases from foreign online retailers are dominated by a number of globally significant online giants. This is partially due to familiarity and momentum following successful marketing and campaigns by those global companies, and is also partially due to the

reluctance of local consumers to provide personal and banking details to lesser known overseas websites, given the prominence of security risks that prevail on the internet.

For the most part, these globally dominant online giants, whose sales make up a major portion of the online foreign purchases from Australia, already have in place systems with the capacity to comply with a requirement of Australian law to collect the GST. These companies' capabilities and systems currently exist because so many other comparable jurisdictions around the world have already introduced extra-jurisdictional requirements into their own tax regimes (other countries have already introduced such requirements for exactly the same reasons that Australia should). In other words, these global giants are already collecting similar taxes on behalf of other governments around the world, and could easily do so for Australia if required by the Commonwealth Government.

Furthermore, it is likely that most of these globally dominant giants would voluntarily comply with a requirement to pay the GST, irrespective of any questions around enforcement and jurisdictional reach. Voluntary compliance would likely occur for a number of reasons, including the risk of negative domestic publicity, the interests of good government and corporate relations, and the impacts on local customer loyalty that would follow issues of non-compliance or evasion

NRA notes that such a voluntary international compliance regime could be very cost-effective for the Commonwealth Government, certainly much less costly than making changes to the scale or systems at the border. Furthermore, the existing capacity of most globally dominant giants means that this is a step that could be taken immediately, providing an interim solution to the identified problems and potentially providing the Commonwealth Government with the time it requires to finalise its proposed business cases and implementation plans for border collection solutions.

**Recommendation 2: that the Commonwealth immediately make amendments to the GST law so as to make overseas suppliers to Australian residents liable for remittance of GST on all supplies of both goods and services that would otherwise be subject to GST if purchased from a local retailer.**

**Recommendation 3: that under the approach proposed in recommendation 2, the GST exemption threshold for physical parcels be reduced to the nominal level of \$20.00.**

## The benefits of taking immediate action

Taking the recommended actions in this submission will yield a number of benefits for the Commonwealth Government, for State and Territory Governments, and for the overall welfare of Australian residents and the Australian economy. These include:

### Tax equity and competition

Local retailers will be able to compete on a level playing field, whereas currently the operation of the GST and customs regime puts our businesses at an immediate price disadvantage compared to foreign competitors. Even a local business that is purely online (i.e. not exposed to potential international cost variances in other areas like rent and labour) is still placed at an immediate price disadvantage compared to their foreign competition, under the operation of the existing tax and customs regime.

Local retailers are not requesting special treatment or protection – we just want a fair go so we can properly compete on a level playing field. The current regime actively discriminates in favour of foreign companies. Furthermore, without a level playing field, there is less incentive than there should be for Australian companies and budding entrepreneurs to attempt to innovate and build online capabilities within Australia, and contribute to the domestic taxation base.

### Employment benefits

Local jobs will be saved or created in Australia, if we can avoid the outcomes that are likely to occur if the GST regime is not corrected. The Ernst & Young report cited earlier estimates that up to 33,400 local retail jobs will be lost over coming years if our local businesses continue to face this discrimination (see attachment 1 – The threshold question: Economic impact of the low value threshold on the retail industry). Note that these jobs at risk are likely to be the jobs of the least skilled and most vulnerable workers in our country, because the retail sector employs a high proportion of our nation's least skilled workers, such as our youth, single parents, and senior workers returning to the workforce.

### Increased revenue for the States and Territories and Commonwealth

The States and Territories will receive additional GST revenues, allowing them to invest in public services such as hospitals, nurses, teachers and police. The value of the potential GST revenues have been estimated in an Ernst & Young Report commissioned by NRA (see attachment 2 – Impact of removing the LVT on GST revenues).

The Commonwealth Government will also receive additional revenues, by virtue of ensuring that this slice of the domestic economy is retained within Australia, rather than lost overseas, retaining its capacity to receive PAYG, corporate and other taxes received from the resulting domestic economic activity.

**Recommendation 4: that the Commonwealth immediately give effect to these recommendations in order to obtain the following benefits for Australian residents and for the Australian economy:**

- 1. Local retailers will be able to compete on a level playing field, whereas currently the operation of the GST and customs regime puts our businesses at an immediate price disadvantage compared to foreign competitors. Local retailers are not requesting special treatment or protection – we just want a fair go so we can properly compete on a level playing field. The current regime actively discriminates in favour of foreign companies.**
- 2. Local jobs will be saved/created compared to the alternative. An Ernst & Young report commissioned by NRA estimates that up to 33,400 local retail jobs will be lost if our local businesses continue to face this discrimination (see attachment 1 – The threshold question: Economic impact of the low value threshold on the retail industry). Note that these jobs are likely to be the jobs of the least skilled and most vulnerable workers in our country, as the retail sector employs a high proportion of our nation’s least skilled workers, such as our youth, single parents, and senior workers returning to the workforce.**
- 3. The States and Territories will receive additional GST revenues, allowing them to invest in public services such as hospitals, nurses, teachers and police. The value of the potential GST revenues have been estimated in an Ernst & Young Report commissioned by NRA (see attachment 2 – Impact of removing the LVT on GST revenues).**
- 4. The Commonwealth Government will also receive additional revenues, by virtue of ensuring that this slice of the domestic economy is retained within Australia, rather than lost overseas, retaining its capacity to receive PAYG, corporate and other taxes received from the resulting domestic economic activity.**

## Conclusion

At first glance, the NCOA may view this issue to be one affecting state governments and their revenue streams, with only potential additional expenditure for the Commonwealth. However, as has been outlined above, a weakened retail sector experiencing business closures and job losses will indeed have a detrimental impact on both revenue and expenditure for the Commonwealth.

Moreover, in considering the future shape of its various budget measures, the Commonwealth cannot in good conscience ignore its responsibility to ensure the integrity of the GST revenue base. This submission and its attachments have outlined the case for changes to the GST collection, as well as cost-effective measures that will enable the Commonwealth Government to collect GST revenue on behalf of the states and maximise its own corporate and personal tax take, without significant expenditure.

As an added bonus, the measures proposed in this submission will unshackle the retail industry, creating a fairer playing field for tens of thousands of business owners and millions of their employees.

The NRA commends this submission to the NCOA, and urges the inclusion of these recommendations in its phase one report to the Government.

## Contact information

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## Summary of recommendations

**Recommendation 1:** that the Commonwealth recognises its responsibility for vigilantly protecting the GST revenue base on behalf of the States and Territories by immediately committing to prevent the leakage of GST revenue from online imports.

**Recommendation 2:** that the Commonwealth immediately make amendments to the GST law so as to make overseas suppliers to Australian residents liable for remittance of GST on all supplies of both goods and services that would otherwise be subject to GST if purchased from a local retailer.

**Recommendation 3:** that under the approach proposed in recommendation 2, the GST exemption threshold for physical parcels be reduced to the nominal level of \$20.00.

**Recommendation 4:** that the Commonwealth immediately give effect to these recommendations in order to obtain the following benefits for Australian residents and for the Australian economy:

1. Local retailers will be able to compete on a level playing field, whereas currently the operation of the GST and customs regime puts our businesses at an immediate price disadvantage compared to foreign competitors. Local retailers are not requesting special treatment or protection – we just want a fair go so we can properly compete on a level playing field. The current regime actively discriminates in favour of foreign companies.
2. Local jobs will be saved/created compared to the alternative. An Ernst & Young report commissioned by NRA estimates that up to 33,400 local retail jobs will be lost if our local businesses continue to face this discrimination (see attachment 1 – The threshold question: Economic impact of the low value threshold on the retail industry). Note that these jobs are likely to be the jobs of the least skilled and most vulnerable workers in our country, as the retail sector employs a high proportion of our nation's least skilled workers, such as our youth, single parents, and senior workers returning to the workforce.
3. The States and Territories will receive additional GST revenues, allowing them to invest in public services such as hospitals, nurses, teachers and police. The value of the potential GST revenues have been estimated in an Ernst & Young Report commissioned by NRA (see attachment 2 – Impact of removing the LVT on GST revenues).
4. The Commonwealth Government will also receive additional revenues, by virtue of ensuring that this slice of the domestic economy is retained within Australia, rather than lost overseas, retaining its capacity to receive PAYG, corporate and other taxes received from the resulting domestic economic activity.