



NRA GST Low Value Threshold (LVT) case studies

August 21, 2015

More than 15 years after the GST was introduced in Australia, there is one aspect of the GST regime which has become a growing tax loophole exploited by overseas businesses to get an unfair price advantage over local, Australian businesses.

When the GST was drafted in 1999 by the Howard Government, online shopping was possible but it was not the phenomenon that it is today. Little thought was given to applying the threshold for taxing imports. The \$1,000 import threshold was simply borrowed from the customs and tariffs regime that already existed at our border. The Federal Government added this loophole for the convenience of Australian businesses, long before e-commerce was popular. Under the threshold, consumers didn't (and still don't) have to pay duty and taxes on goods (excluding tobacco, tobacco products and alcohol) with a value of less than \$1000.

As the market for consumer goods has become global, our local businesses must now compete on a worldwide scale. Our local businesses are at an immediate price disadvantage compared with foreign-based competitors, when selling exactly the same product to exactly the same customer in Australia. The tax system is thus conferring a positive competitive advantage onto foreign-based competitors, which are typically the online giants who clearly do not warrant any leg-up or tax advantage in our system.

We are a family business in Melbourne with a small showroom, and an online presence. We have been selling egg incubators nationally since 1982. However, a distributor based in the UK decided to sell online into Australia. Because of the GST loophole on goods valued less than \$1000 AUD, there are no duties, taxes or charges to pay and the seller is able to sell to Australian customers at a cheaper price. Customers badger us to meet the UK seller price even when we explain this is below cost for us. The UK seller benefits from their low cost postal rate while Australia Post imposes a greater cost.

- Kelly Kohlhardt, Bellsouth Poultry Equipment, Victoria

The customers who buy the same product overseas come to us as the Australian agent seeking a warranty replacement when they realise their goods are not as they were advertised. Our reputation suffers when we have to tell the customer that we cannot meet their warranty obligation. The manufacturer has since dropped the UK seller, however the seller still sells leftover stock in the Australian market. Another fallout from this situation is Australian buyers, on-selling items in the domestic market.

I'm a WA retailer. As business owners, we have to collect the GST, so there is no reason that online overseas companies should be exempt. It hurts our businesses when people look offshore to overseas companies to provide the same product but who are cheating the system.

- Eddie Peters, Managing Director The Honda Shop (WA Loan Co), Western Australia



The GST is only one part of the concern. The customs charges can be quite a significant percentage of the total cost, with the federal government being duped by overseas companies willing to falsify invoices.

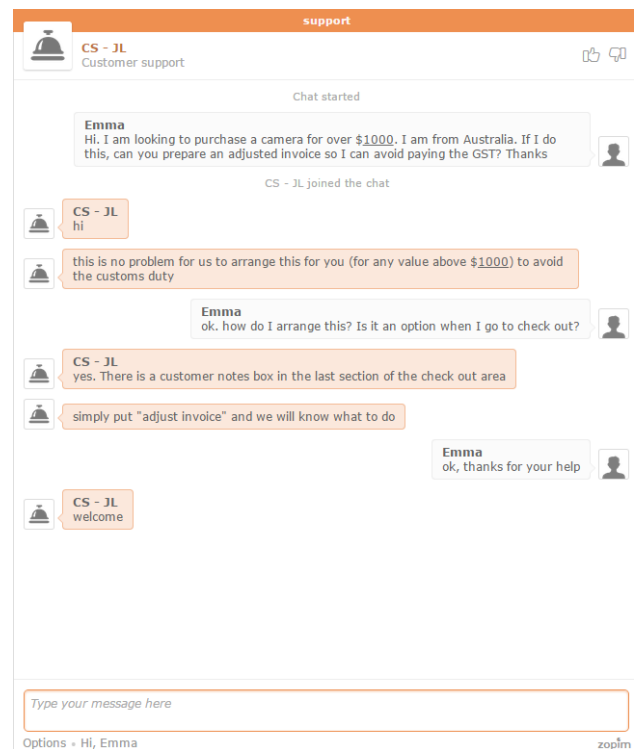
It is now being abused by overseas retailers who, in some cases, offer to ship purchases in multiple parts, offer to create a duplicate (fake) invoice or even disguise goods to avoid customs duties.

For example, Hong Kong-based electronics retailer E-Global states on its website that its product prices do not include the GST and they do not charge any tax or GST.ⁱ In an online chat forum, a company representative told an NRA representative that E-Global could prepare an adjusted invoice for any purchase over \$1000 to avoid Australian customs duties.

One Chinese online store, Focal Price, outlines on its website how taxes and customs duties are handled, implicitly stating that taxes are not included in the initial price (see the following).

How are taxes and customs duties handled?

As per our data, less than 1 percent of packages are opened and checked by customs officials at their destination. In the event that your package is inspected, you (the customer) will be responsible to pay any taxes that have been assessed.



NRA representative chat with E-Global representative.

Although the possibility of import taxes is very slim, we strongly suggest that you familiarize yourself with your country's import policy before making a purchase. When ordering from FocalPrice.com, the recipient is the recorded importer and must comply with all laws and regulations of the destination country. The customer is ultimately responsible for assuring that the product can be lawfully imported into the destination country. Please remember that some products may require special licenses or permits to import (such as high powered lasers). It is the customer's business to handle situations where products are confiscated by customs officials in their country.ⁱⁱ

Another online retailer, Dealextrême, said the following in an online chat:

The customer is responsible for all customs and import issues including but not limited to knowing import laws and dealing with taxes, tariffs, and item seizures. Hong Kong warehouse items are not



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subject to any export taxes. International warehouse items are not subject to any sales tax. All packages are declared as gift. Invoices are never included in the package.

The following information can be found on Dealextrême's website:

How are customs and taxes issues handled?

Customs and import duties including any taxes, tariffs or item seized, are the sole responsibility of the customer. Items shipped from our warehouse and other international warehouses are not subject to export taxes.

Our common Airmail delivery service does not have an invoice in the package, however, express shipping methods such as TOLL Express, DHL or TNT orders must be sent out with an invoice for customs clearance.

The [NRA](#) is Australia's largest and most diverse retail industry organisation, and has been representing the interests of the retail, fast food and broader service sector for almost 100 years.

Trevor Evans is available for interviews. Contact the NRA's media unit on (07) 3240 0163.

ⁱ eGlobal Digital Cameras. *Tax information.* <http://www.eglobaldigitalcameras.com.au/contact-us.html>

ⁱⁱ Focal Price. *How are tax and customs duties handled?* <http://dynamic.focalprice.com/helpinfo?currentCategoryID=16>