

10-31-2014

The uses and abuses of GST reform in Australia

Follow this and additional works at: <http://epublications.bond.edu.au/rlj>

Recommended Citation

(2014) "The uses and abuses of GST reform in Australia," *Revenue Law Journal*: Vol. 24 : Iss. 1 , Article 4.
Available at: <http://epublications.bond.edu.au/rlj/vol24/iss1/4>

This Commentary is brought to you by the Faculty of Law at ePublications@bond. It has been accepted for inclusion in Revenue Law Journal by an authorized administrator of ePublications@bond. For more information, please contact [Bond University's Repository Coordinator](#).

The uses and abuses of GST reform in Australia

Keywords

Australian taxation, GST, Goods and Services Tax, taxation, online retailer

Op-ed: The Uses and Abuses of GST Reform in Australia

There is a good deal of talk about changing the GST. Should the base of the tax be broadened to include fresh food, financial services, education and health? Should the rate be increased from 10%? Should the revenue continue to be directed exclusively to states and territories that enjoy spending money they do not raise? To what extent should receipts collected in some states be diverted to others? The time for a proper debate is upon us, even if the government has warned there would be no change in the life of this parliament.

Nobody enjoys paying tax, but some taxes are better than others. The GST is a desirable tax because it is – at least potentially – more efficient in the sense it is *possible* to impose and collect the tax without distorting economic choices, and without creating significant opportunities for avoidance.

Australia's GST is less efficient than it should be. It is certainly less efficient than its counterpart in New Zealand. There are sound arguments for expanding the base of the GST in Australia to make it more efficient. The arguments in favour of increasing the rate are less clear. But there will be more about those aspects of this important debate in later editions of the *Revenue Law Journal*.

This editorial focuses on a specific proposal for GST reform that is being advocated by Australian retailers who believe they are suffering at the hands of online retailers. Australian consumers are able to purchase goods (and services, for that matter) from websites based overseas without incurring GST provided the goods and services in question have a value of less than \$1000. Australian retailers, who must impose GST, say that gives online retailers an unfair advantage. Online purchases worth less than \$1000 that are imported into Australia should attract GST, we are told, in the interests of fairness.

This proposal has nothing to do with fairness. It is all about protectionism.

Advocates of change skip past the fact online retailers bear a cost that local retailers do not: overseas suppliers of goods must charge (or absorb) the price of international freight. On many items, the cost of freight will exceed the amount of GST that would have been paid if the items were bought locally. Advocates of change also forget online retailers are only attractive because they offer a broader range of products at lower prices – lower prices that are explained by economies of scale and a strong dollar, for sure, but also by the fact Australian retailers have failed to manage their own costs. Shopping centre rents are too high in this country, and labour costs have blown out. Rather than address these issues, retailers who advocate imposing the GST on small imports want to be protected from low cost alternatives. The consumer will be the loser.

Arguments about levelling the playing field are tosh. To see why, one needs to understand the practical implications of levying the GST on packages coming through the post from overseas. We will need infrastructure to assess and collect the tax. That will slow down deliveries. It will also increase administrative costs for the government and delivery companies – costs *in addition to the GST* that will almost certainly be passed onto consumers.

Look at what happens when you send a package to the United Kingdom, say, where there is no VAT-free threshold. Goods are held up in transit while they are assessed. The recipient must be informed of the need to pay VAT before the item can be collected. No surprise there; the surprise comes when the recipient is informed of the separate customs clearing fee or service charge which may be levied by the post office or parcel delivery service. That charge takes account of the extra costs associated with handling and storing the parcel, assessing its value, raising and communicating the assessment, processing the payment or the paperwork associated with the tax, and *then* delivering the goods. (Of course, it is possible the additional costs will be accounted for by charging the despatcher more to send the item in the first place – but the net effect is the same.)

The end result of this bureaucratic process is to significantly increase prices of goods ordered online from overseas. The price increase will not just reflect the GST; it will also inevitably reflect a potentially significant increase in the cost of postage and handling – not to mention the significant non-monetary cost arising out of delays while that process goes on. The effect will be to shelter Australian retailers from pressure to manage their own costs. That will occur at the expense of the consumer.

The GST is *potentially* a more efficient tax, to be sure – but not if it is used by rent-seekers as a barrier to entry.*

*BJM