

Submission to Federal Government Tax Review

By the Australian Music Association Inc

About the AMA

The Australian Music Association represents music wholesalers, importers, manufacturers and retailers operating the music products industry. The association involves over 400 speciality retailers of music products and print music, as well as dozens of suppliers. The industry employs over 4,000 people, and contributes \$550 million annually to the economy, as well as providing the tools for the broader music industry valued at well over \$1billion annually

Our industry is heartened to see, after years of lobbying, the LVT on GTS on Imports being on the national agenda and identified as an unfair disadvantage borne by small businesses. We applaud recent remarks by the Treasurer and the Assistant Treasurer about the need to reconsider this aspect of the GST legislation. We also understand this issue is part of the Tax Review being debated – we urge that the LVT be abolished immediately and the GST is collected on all off-shore purchases, in line with the recent decision on the collection of GST on ‘digital’ products purchased from overseas.

Background

*(extracts from a letter from the Minister for Small Business)

The low value threshold currently exempts imports of goods valued at \$1,000 or less from GST. This issue was considered by the Productivity Commission as part of a broader inquiry into the retail industry commissioned by the previous government. Its final report on the Economic Structure and Performance of the Retail Industry was released in December 2011.

One of the Productivity Commission’s key findings is not the main factor affecting the international competitiveness of Australian retailers. Nonetheless it found that there are strong in-principle grounds for the threshold to be lowered significantly. On the basis of tax neutrality, goods sourced overseas should face the same tax regime as goods sourced domestically.

However the productivity Commission recommended the threshold should not be lowered until it is cost effective to do so. Accordingly the low Value Parcel Processing Task Force was established and asked to investigate options to improve the efficiency of processing low value imported parcels.

The final report of the Taskforce containing its recommendations was released in 2012.

<http://www.treasury.gov.au/PublicationsAndMedia/Publications/2012/Low-Value-parcel-Processing>

The government has now received the business case and possible implementation plans for reforms to low value parcel processing following the Taskforce’s recommendation.

The issue

The low value threshold (LVT) is a part of the GST laws that enables Australian citizens to purchase goods from foreign companies (usually online) without having to pay GST on those goods, if those goods are worth less than \$1,000. Goods are also duty free and usually the purchaser will not have to pay the local sales tax either.

The LVT provides foreign companies with an unfair advantage over Australian companies as they don’t have to charge 10 per cent GST.

Please stop the GST injustice now. We argue that if goods are so cheap overseas then 10% GST on imports may make little difference to sellers but a massive difference to our economy and the credibility of Australian merchants. After 10 years of decimation our members need some sign of confidence in the GST system. They collect GST for free but are competitively severely punished ...please recommend a level playing field now.”

The Impact – What does this mean to Australian Businesses?

This is having a direct impact on AMA members’ businesses, and all small to medium businesses employing thousands of people nationwide. The damage has been massive. The Retail sector and SME enterprises, Australian SMEs and particularly retail and wholesale in the music products industry have been severely affected. For many it is too late. Only very quick action will help those that remain.

The music products industry has lost at least 20 per cent of its specialist small family businesses in the last 3 – 5 years. The loss of a number of stores in recent years has been a major blow. This is due, in part, to the ever changing business models forced on Australian small business, particularly as overseas competition online increases.

The consumer has formed a price perception from the online prices quoted by overseas competitors – prices that do not reflect the state taxes at source, and do not include GST. This price perception has made local retailers appear increasingly uncompetitive, and at best has squeezed margins to a point where many businesses are no longer viable.

A succession of music products industry market reports clearly indicates the effect of overseas competition.

Comparison with electric guitars sees a decline of, from a peak of 108,000 units in 2008, to 60,000 in 2014. Electric guitars are more likely to be privately imported.

The amplifiers that power guitars on the other hand have enjoyed relatively strong growth. It is obvious that an amplifier will be more costly to import, with increased freight charges due to weight and perhaps also around voltage and currency concerns.

Record numbers of acoustic guitars (which do not travel well) were imported in 2014. This segment is less likely to be privately imported. Electric guitar volumes have been trending downward in recent years. The 60,000 units imported in 2014 represent a further 6% decline in volume accompanied by a 7% decline in value. Current volumes are around 40% below their record levels recorded back in 2007/8 when over 100,000 units were imported. The electric guitar market growth could also well have been adversely affected by online competition from overseas vendors.

Cymbals have seen unprecedented declines in unit numbers. Likewise drum kits have suffered far in excess to what the interest in drumming would suggest and at a higher rate than in the US.

Accessories and cheaper items that easily arrive as a small parcel are extensively purchased online. Printed Music sales are down 22% to about 960,000 units from 2010 and 24% in sales value at retail.

There are risks with importing a musical instrument, but this does not seem to have deterred the consumer, who use our stores to scope out their purchase, then go and buy on line from overseas entities.

Price is the primary consumer concern – in a price driven market the Australian retailer is at a disadvantage. Price is the sensitivity – who can resist an online ‘bargain’ – we have seen how sensitive the issue to price is, when in the last year or so the \$AUS has weakened; the industry has seen a slight uptick in sales locally.

How does Australia compare to the rest of the world?

At \$1,000, Australia has the highest taxable threshold on imports in the world. By contrast, in Great Britain it is approximately 15 pounds (approx.\$30), and in Canada it is \$30.

The recommendations of the Taskforce and the Minister’s letter (referenced herein) refer to the cost of collections. Our members question that the Australian Customs Service simply cannot possibly attain the professional level of the other Customs Services in the rest of the World that our industry regularly deals with - Customs services that maintain a low level threshold.

How can we level the playing field?

The majority of our industry’s core products are captured by the threshold of \$1,000. Reducing or abolishing the LVT will provide the industry the ability to strive for international competitiveness and keep Australians in work.

Is fixing the LVT issue expensive?

No. There are different models which have not been properly considered by government or the taskforce, including doing what some other countries do by requiring large offshore online retailers such as Amazon or payment gateways like Paypal to register for and collect the GST.

The recent federal budget decision to required GST be charged on digital purchases from overseas suppliers, indicates immediately that this change in regulation is both achievable and deliverable. GST is also currently payable on imports of Alcohol under the current \$1000 threshold.

What will happen if nothing is done?

If action is not taken to address this issue, our industry will continue to decline – businesses will fail and more jobs will be lost. At the same time, as offshore online trade continues to grow, the Government will soon be forgoing GST revenue upward of \$1 billion annually in the near future,

Record Bankruptcies.

In 2012 over 12,000 Australian companies went Bankrupt.

According to Dun and Bradstreet in their latest Business Failures and Start-ups Analysis, the number of small businesses that went bankrupt over the last 12 months to February 2012, had jumped by 48%, with a main trend in the previous 3 years had been a 30% growth in business failures. According to Dun & Bradstreet, the worst sector in terms of business failure is Retailing – up 11% for the quarter and 115% for the year.

Australian retailers operate in a relatively high-cost economy. They cannot compete with warehouses in low cost countries like USA that pay \$7 per hour for a warehouse assistant, and that enjoy cheaper rents and lower cost employment conditions. Our industry is further disadvantaged by the mainly two-tiered supply chain, where our retailers are encased in a three-tiered supply chain, selling the same products.

Australian traders generate and pay a massive amount of taxes in addition to a GST, which they collect for nothing and are held to account! They pay...

Federal Tax – Company Tax, Income Tax, Pay as you Go Tax, Fringe Benefits Tax, Import Duties,

State Taxes - Payroll Tax, Land Tax, Stamp Duty, Insurance levies.

Local Taxes - Council Rates, Water Rates.

Staff legislated Costs...Superannuation, Penalty rates, Public holidays etc...

These combined can add up to over 25% of the turnover dollars. That means that Australian Governments are losing around 25 dollars per each hundred dollars being spent on imports under \$1000!!! That would equate to A\$3.25 billion per year just on the 2011 numbers.

In Australia over the last 5 years

- The value decrease of the industry over the last 5 years has been an average 1.19% per annum. Over a 10-year period, just a 0.5% average growth rate.
- Units declined by 100,000 in 2012 (following the almost 200,000 decline in 2011), and import value declined by \$5 million.
- 95% + of musical instruments sold in Australia are imported.

Companies including Australia Post are setting up services where products purchased in the USA for example, get shipped to an American address and then forwarded onwards to Australia. International Freight companies that can deliver door to door for a relative pittance add to the disadvantage suffered by Australian retailers.

In 2012 imports through post offices exceeded 48 million parcels.

Retail was Australia's largest employer. A report in January quoted a 40% reduction in retail jobs over the past four years. The figures it mentioned were from 2.4 million in 2009 to 1.7 million in 2014, that's 700,000 jobs!

Anecdotally from AMA Members;

The effect of the LVT is that our overseas competitors can offer the same products for sale at a 10 per cent discount compared to what our members can offer. The increasing popularity of online shopping (according to the Australian Bureau of Statistics, Australian consumers are spending over \$7 billion annually shopping in overseas online stores) means that local music products businesses are really suffering.

At present customs say they inspect 5% and the \$1000 threshold was quoted as a loophole for them to bypass much of the process. Freight companies from USA deliver door to door in 3 days, in most cases bypassing Customs.

International freight companies are taking advantage of the loophole and bulk declaring shipments as under the threshold. In 2012 a wholesale AMA member had an International delivery of electrical goods valued over \$14,000 delivered door to door. A similar shipment was processed via Australian freight agents and cost \$14,000 in charges...doubling the price. Early in 2011 Customs held a blitz on Self-Assessment Certificates (SAC) and small imports. These results appear to have been largely ignored. The anomalies were clear.

People who make the effort should be free to be rewarded in their own country. In trading merchandise ones credibility is paramount. An example happened in 2011 when an AMA Merchant and his full time employed daughter visited the USA Music Trade show. They spent a great deal of time learning about a new sound module that they considered was of special interest for

their customers. On return they arranged a presentation night with artists and through hard work about 45 people attended. On the night four people were very interested but did not buy. The item had a retail price of \$1595 the base cost was around \$1150. After two days they sold one after taking a small trade in against it. Within two weeks they sold another one at a highly discounted price and became obvious that there was going to be considerable loss on the project. They learnt that an American warehouse site had the same product available freight free to Australia for A\$999. Obviously in the USA no taxes are paid on exports so not only did the dealers work go unrewarded but both Governments missed out as well!!!

During 2012 the "Boston" research group stated that \$13 billion Australian dollars went overseas on goods direct to consumers via the Internet during 2011. The effect using the basic multiplier effect taught in Economics is a five times factor resulting in $13 \times 5 = \$\text{AUS}65$ billion on the Australian economy. Backing that up were figures obtained at a Customs meeting in Melbourne in March 2011 where when asked, customs officers calculated that each month they processed 1.15 million Self-Assessment Certificates (SAC) per month. If the average for each of those SACs was \$800 then that is over a billion dollars per month. For some reason the existence of SAC's seemed to be ignored in the Productivity Commission report.

In 2013, when the US Senate promoted a "Main Street" Traders Bill, Amazon conceded that it may have to start paying state taxes.

In the year 2005 the amount of Duty/GST free goods allowed when entering Australia was \$400 per person per trip. Why a \$1000 threshold amount for as many transactions as you like was introduced, certainly raises legitimate questions.

Charges on International freight to businesses are very extensive. These include, as well as the GST, duty, freight and local agent handling costs, delivery order costs, Terminal handling charges, CMR compliance, security fee, Sea Cargo Automation fee, E.D.I., shipping line document fee, quarantine entry, AQUIS profile fee, quarantine attendance, quarantine inspection and so on.

The government appears to be aiming cost recovery at business using this model. It is rare that a consumer pays all the import costs that an Australian business does.

Both USA and UK sellers have been in the last 5 – 10 years been actively targeting Australia as a cash cow, with many sites having local freight prices, along with, freight prices to Australia and in the darkest times, automatic \$US dollar conversion to \$AUS.

Conclusion

We acknowledge that consumers don't only shop online because of the 10 per cent discount the LVT provides them. But of all of the challenges facing local retailers – wage costs, high rents, increasing transport costs and a historically high savings rate – one thing the Government can easily do to help small business owners is to remove the LVT.

As online shopping becomes more and more popular, the impact on local businesses is only going to get worse if NO changes are made as purchases will continue to be made offshore. Our industry only seeks a level playing field, and particularly where it is within our government's control, and resource capability and will promote a sense of fairness, as well as supporting Australia's 'engine room' of Small Business Enterprises.

The Australian Music Association, on behalf of hundreds of Australian SMEs in the music products industry, calls on the Tax Review to recommend:

The immediate reduction of the low value threshold on imports from \$1000 to that in-line with Global practice and to that which creates fairness for Australian businesses.

Set up an International product data base for compliance and cost specifications. For over 9 years a number of industry groups in USA have established a product data base that could be used for product value identification internationally at minimal cost.

Please act quickly. There is a small window of opportunity to right the massive wrong imposed on Australian merchants.