

**SENATOR THE HON. CHRISTOPHER ELLISON**

Minister for Justice and Customs  
 Senator for Western Australia  
 Manager of Government Business in the Senate

The Hon John Howard MP  
 Prime Minister  
 Parliament House  
 CANBERRA ACT 2600

23 AUG 2005

Dear Prime Minister

I am writing to seek your agreement to changes to both the revenue collection and Customs declaration thresholds for cargo (including mail) imported into Australia. These changes will need to be in place before the cut-over time for the imports part of the Integrated Cargo System (12 October 2005).

In 2000 the Commonwealth Competitive Neutrality Complaints Office (CCNCO) of the Productivity Commission investigated a complaint by the Confederation of Asia Pacific Express Couriers (CAPEC) into *Customs Treatment of Australia Post*. The key recommendations of its report were that:

- the value thresholds for formal screening by the Australian Customs Service of incoming and outgoing postal [\$1000] and non-postal items [\$250] be aligned, at levels which strike an appropriate balance between revenue collection and risk management objectives and administrative efficiency considerations;
- the Government give further consideration to the feasibility of imposing cost recovery for informal Customs screening of incoming postal items; and
- the concerns of express couriers about the new High Volume, Low Value charging scheme be addressed as part of the Government's consideration of the broader issue of whether Australia Post should pay cost recovery charges for informal screening of incoming postal consignments.

In May 2001 I replied to the then [REDACTED] s22 - Irrelevant  
 [REDACTED] s22 - Irrelevant to the effect that I intended to harmonise the import entry thresholds (for revenue collection and Customs declaration) when the imports components of the Integrated Cargo System (ICS) commenced.

Since 2001-02 you will recall that, as part of the Government's Increased Quarantine Initiative, all international incoming postal consignments have been subjected to x-ray screening by Customs or the Australian Quarantine and Inspection Service (AQIS).

In July 2002 the export declaration threshold was raised from \$500 to \$2000 — there is no significant revenue collection issue at export level.

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As this is a complex administrative issue, I have set out the background at *Attachment A*.

Particularly since the introduction of GST, where taxation is calculated on the basis of the transport and insurance costs as well as the Customs value of the goods, the mechanism for collection of revenue has become complicated and non-transparent, and requires importers to make judgements that are a source of non-compliance and community irritation.

There is therefore an argument that greater simplicity and transparency in the threshold levels would reduce red-tape for the community and industry, and improve the flow of imports. On the other hand, if the thresholds were changed, the Government needs to weigh the impact on revenue collection (involving associated consultation with the States and Territories), administrative costs for agencies

s22 - Irrelevant

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s22 - Irrelevant

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three options have been identified:

1. aligning the revenue collection and declaration thresholds across-the-board (air/sea cargo and postal imports) at \$500; *or*
2. setting:
  - a revenue collection threshold across-the-board (air/sea cargo and postal imports) at \$500; and
  - two different declaration thresholds – one for air/sea cargo and the competitive Express Mail Service (or future equivalent) products at \$500; and the declaration threshold for other postal products at \$1000;

*or*
3. aligning the revenue collection and declaration thresholds across-the-board (air/sea cargo and postal imports) at \$1000.

s22 - Irrelevant

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From a whole of Government perspective *Option 3* is not considered feasible as it would result in a significant revenue loss (of around \$19-22 million per year for Customs duty and GST), which would require State/Territory agreement.

The first option to align all thresholds at \$500 would fully address the competitive neutrality complaint, as all imports would be treated the same. This option is estimated to result in a loss in customs duty revenue to the Australian Government of \$2 million in 2005-06, rising to \$4 million in 2009-10. In addition, it is estimated that there would be a loss in GST revenue of around \$3 million per year.

*Option 1* is also estimated to have an administrative cost to the Australian Customs Service of around \$2.5 million in 05-06 as well as result in

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In terms of air express couriers' clients I am advised that, based on 04-05 data, there would be about 262,000 fewer declarations required under Option 1, at a reduced cost to the clients of about \$8 million in import processing charges and about \$15 million in commercial charges.

Option 2 recognises the potentially significant costs to private mail recipients who currently do not need to make declarations or pay duty/GST or Customs/AOIS charges. s22 - Irrelevant

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Taking into account air express couriers, Option 2 would therefore result in a net reduction of 223,000 import declarations by clients.

The competitive neutrality matter would still largely be addressed because

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To address any potential future competitive neutrality issues, I would also propose that any future equivalent competitive products should also be subjected to similar treatment. I suggest that these considerations be subject to agreement among relevant Ministers.

These two options therefore provide a different balance of the various considerations, including administrative costs, revenue effects and impact on the community.

Option 2 provides similar revenue and administrative impacts to option 1, but with a significantly reduced impact on the community.

More details on the costs of the three options are provided at *Attachment C*. Diagrams illustrating the impacts of the two viable options are included in *Attachment B*.

#### **Consultation with industry**

s22 - Irrelevant



#### **Conclusion**

There is benefit to having a consistent approach to revenue collection and import declaration, irrespective of the mode of transport. However, the Government needs to weigh the advantages of equity, simplicity and transparency against the immediate community and revenue impacts. I suggest that *Option 2* provides the most appropriate balance between these various factors.

#### **Consultation with States and Territories**

Under the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations, there is an obligation to consult with the States and Territories on proposals that contain GST implications. Once an option has been agreed by Government, I understand that the Minister for Revenue and Assistant Treasurer will write to the States and Territories to seek their formal agreement.

#### **Recommendations**

I recommend that, subject to your agreement to Option 2, the necessary changes to Customs' relevant regulations and bylaws be made, and that I advise industry and the community in good time for the cut-over date to ICS imports of 12 October 2005. Because of the criticality of this decision to the operation of ICS, I also recommend that, if State/Territory agreement is not reached before mid September, you agree that officers of your Department and Customs settle on an appropriate threshold/s for importers and freight forwarders to make declarations and for revenue to be collected.

I have copied this letter to the relevant Ministers.

Yours sincerely



**CHRIS ELLISON**  
Senator for Western Australia



## REVENUE COLLECTION AND IMPORT DECLARATION THRESHOLDS

### Background

There are two thresholds that determine the treatment of imported goods.

s22 -

s22 - Irrelevant

This is the value at which the owner of the goods or agent is obliged to provide detailed information to Customs in the form of an import declaration. The current differential declaration thresholds are \$1000 for goods imported by post and \$250 for goods imported other than by post (that is, sea/air cargo). Goods with a value below these amounts can currently be cleared by less formal means. While freight forwarders are able to clear air/sea cargo quickly through electronic reports to Customs, in the postal environment there is a very low use of electronic systems and therefore mail clearance requires time-consuming manual processing arrangements.

Cost recovery charges apply to Customs declarations, for example, legislated Customs charges and AQIS charges. Industry also charges for its services, for example, information technology communicators, Customs brokers, freight forwarders.

Between 1975 and 1986, there was a common reporting threshold of \$250 for goods imported to Australia by air, sea and post. This was in line with the philosophy that legitimate trade should be facilitated, and formalities should otherwise not act as non-tariff barriers. In 1986 Customs increased the reporting threshold for postal items to \$1000.

There is also a threshold amount above which revenue (duty/sales tax) is collected for each mode of importation [the 'screen-free' threshold or revenue concession] – it was \$20 from 1985 until 1991, when it was raised to \$50 by a change to the relevant Customs tariff by-law. This concession minimised delays in delivering mail and cargo, reduced the cost to business of importing low value consignments, and took account of uneconomical collection of duty and taxes.

A diagram setting out the current arrangements, and *Options 1* and *2* is at *Attachment B*.

**ATTACHMENT B**

**Clearance of air/sea cargo (including postal articles) -  
Current arrangements**

Current Air/Sea Arrangements

Entry  
(Declaration)

\$A250

Current Post Arrangements

Entry  
(Declaration)

\$A1000

**Option One** - \$A500 across the board for all air cargo/sea cargo/postal articles (for both revenue collection and Customs declaration).

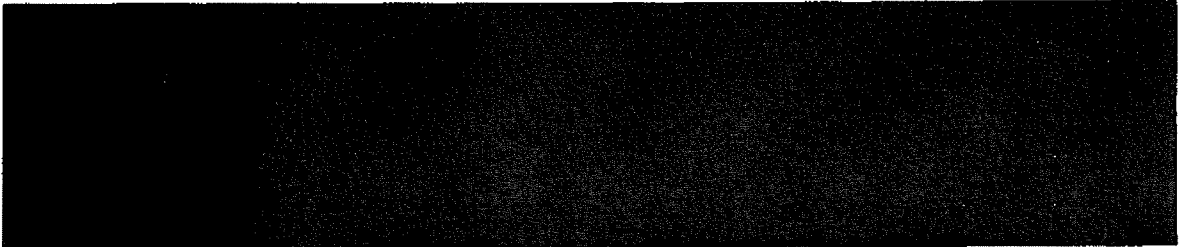
All air/sea cargo

All postal articles

Import Declaration  
through Integrated  
Cargo System

Import Declaration  
through Integrated  
Cargo System

\$A500



**Option Two** - \$A500 across the board for revenue collection; \$A500 for declaration of air cargo, sea cargo and s22 - Irrelevant articles, and \$A1000 for declaration of all other postal articles.

All air/sea cargo  
excluding postal  
articles

s22 - Irrelevant

Other postal  
articles

Import Declaration  
through Integrated  
Cargo System

s22 - Irrelevant Import  
Declaration  
through  
Integrated  
Cargo System,  
or automated  
non-Integrated  
Cargo System  
processed by  
Customs

Import Declaration  
through Integrated  
Cargo System

\$A1000

\$A500

**Option 1**

Aligning the revenue collection and declaration thresholds across-the-board (air/sea cargo and postal imports) at \$500.

**Impact on Customs Duty Revenue (\$m)**

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
Customs Duty	-2.0	-4.0	-4.0	-4.0	-4.0

**Impact on GST Revenue (\$m)**

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
GST	-2.0	-3.0	-3.0	-3.0	-3.0

s22 - Irrelevant

**Impact on Customs administrative costs (\$m)**

Customs	2005-06	2006-07	2007-08	2008-09
Fiscal	-2.5	-2.2	-2.2	-2.2
Underlying Cash	-2.5	-2.2	-2.2	-2.2

**Option 2**

Setting a revenue collection threshold across-the-board (air/sea cargo and postal imports) at \$500; and two different declaration thresholds – one for air/sea cargo and **s22 - Irrelevant** (or future equivalent) products at \$500; and the declaration threshold for other postal products at \$1000.

**Impact on Customs Duty Revenue (\$m)**

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
Customs Duty	-2.0	-4.0	-4.0	-4.0	-4.0

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s22 - Irrelevant

**Impact on Customs administrative costs (\$m)**

Customs	2005-06	2006-07	2007-08	2008-09
Fiscal	-1.2	-1.1	-1.1	-1.1
Underlying Cash	-1.2	-1.1	-1.1	-1.1

**Option 3**

Aligning the revenue collection and declaration thresholds across-the-board (air/sea cargo and postal imports) at \$1000.

**Impact on Customs Duty Revenue (\$m)**

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
Customs Duty	-8.0	-12.0	-13.0	-13.0	-13.0

**Impact on GST Revenue (\$m)**

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
GST	-6.0	-8.0	-8.0	-8.0	-9.0

s22 - Irrelevant

**Impact on Customs administrative costs (\$m)**

Customs	2005-06	2006-07	2007-08	2008-09
Fiscal	2.0	2.0	2.1	2.1
Underlying Cash	2.0	2.0	2.1	2.1

Notes: \* assumes early October 2005 start date.



**MINISTER FOR REVENUE AND  
ASSISTANT TREASURER  
The Hon Mal Brough MP**

PARLIAMENT HOUSE  
CANBERRA ACT 2600

Telephone: (02) 6277 7360  
Facsimile: (02) 6273 4125

assistant.treasurer.gov.au

The Hon John Howard MP  
Prime Minister  
Parliament House  
CANBERRA ACT 2600

06 SEP 2005

Dear Prime Minister

I refer to the letter to you dated 23 August 2005 from the Minister for Justice and Customs, Senator the Hon Chris Ellison, concerning the alignment of revenue declaration and Customs declaration thresholds for postal and courier imports. I am writing on the Treasurer's behalf in relation to this matter.

As there is a discrepancy in the treatment of postal consignments carried by private couriers and identical consignments carried by ~~s22 - Irrelevant~~ the Australian Government Competitive Neutrality Complaints Office recommended in 2000 that the import entry thresholds be aligned.

In order to strike a balance between revenue considerations and administrative simplicity, I note that Minister Ellison has proposed to set the revenue collection threshold at \$500 across the board (air/sea cargo and postal imports) with two different formal declaration thresholds — one for air/sea cargo and ~~s22 - Irrelevant~~ products at \$500 and one for other postal products at \$1000. ~~s22 - Irrelevant~~ This is described as Option 2 in Minister Ellison's letter.

From a tax revenue (customs duty and GST) perspective, I note that there is no difference between this option and Option 1 (Option 1 would also set the revenue collection threshold at \$500 across the board, but has a single formal declaration threshold set at \$500). While Option 1 has the attraction of simplicity, it is estimated to bring an additional 88,000 parties, mainly private, into the formal system of customs entry. The corresponding figure for Option 2 is 39,000 which is significantly lower, but is nevertheless an increase.

I consider it is desirable to minimise the exposure of private parties to additional complexity and cost, particularly where there is no effect on tax revenue.

Removing many parties, both business and private, from the requirement for formal or informal customs entry would occur by implementing a \$1000 across-the-board threshold (described as Option 3 in Minister Ellison's letter). However, this option is estimated to result in a greater revenue loss, consisting of customs duty (\$12 to 13 million per year) and GST (\$8 to 9 million per year). I note that it took over 12 months to obtain the agreement from states and territories to change the passenger duty free concessions which had an estimated annual GST cost of \$17 million per year, despite the fact that the tourism industry and airports within their jurisdictions saw benefits in the revised regime and made representations to the states and territories accordingly.

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2

Moreover, I note that in accordance with usual procedures for costings of this type, the Treasury costing does not take into account behavioural change, which could increase the cost significantly over time. The implementation of a \$1000 across-the-board threshold could create an incentive for consumers to import low-valued products (of less than \$1000) from overseas to avoid paying Australian taxes, which in turn could have an adverse impact on Australian businesses.

Taking all these factors into account, I favour Option 2 proposed by Minister Ellison as it strikes a balance between revenue considerations, administrative simplicity and likely acceptance by the states and territories. I note that while it is estimated that 39,000 parties will be brought into the formal system under this option, this will most likely reduce over time as the community adjusts to the new threshold levels

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Under the Intergovernmental Agreement (IGA) on the Reform of Commonwealth-State Financial Relations, the states and territories would need to be consulted because the amount of GST collected would be reduced by a small amount as a result of this option. If you agree to Minister Ellison's proposal, I will write promptly to the states and territories to seek their agreement.

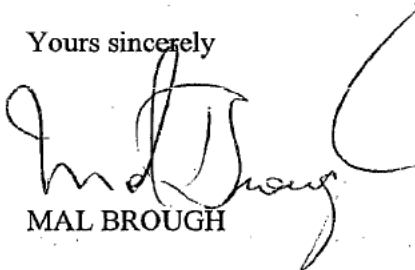
However, as you may be aware I expressed my concern in my letter to Minister Ellison of 17 August 2005, that there may be insufficient time to obtain the agreement from states and territories given that Minister Ellison has announced that the existing customs systems will cease to be available past 12 October 2005. The Integrated Cargo System (ICS) would not be able to accommodate the existing thresholds. I remain concerned that the timing of state and territory approval poses an issue. Minister Ellison's suggestion to disregard the provisions of the IGA if the agreement of the state and territories is not obtained by mid-September would have wider ramifications and would need careful consideration.

I have copied this letter to the Minister for Justice and Customs, the Treasurer,

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Yours sincerely



MAL BROUGH

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~~CABINET-IN-CONFIDENCE~~

PRIME MINISTER  
CANBERRA

222633

Senator the Hon Chris Ellison  
Minister for Justice and Customs  
Parliament House  
CANBERRA ACT 2600

My dear Minister

I refer to your letter of 23 August 2005 seeking my agreement to an alignment of revenue collection and Customs declaration thresholds for cargo (including mail) imported into Australia.

Having considered the options presented in your letter, I have formed the view that the Commonwealth should press strongly in negotiations with the states and territories for the adoption of option three (that is, aligning the revenue collection and declaration thresholds across-the-board at \$1,000). s47C

s47C

s47C I have also taken into consideration the government's commitment to reduce the burden of regulation. This point, in particular, should be emphasised in negotiations with the states and territories.

I recognise in arriving at my decision that option three represents a greater potential loss in GST revenue to the states and territories than either of the other options canvassed in your letter. If state and territory agreement to option three is not forthcoming under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), I would reluctantly support falling back to option two.

If option two is ultimately agreed upon by the Commonwealth, states and territories, the declaration by you s22 - Irrelevant will require the agreement of the Treasurer s22 - Irrelevant s22 - Irrelevant s22 - Irrelevant The Australian Customs Service will be responsible for implementing and administering the process for declaring an s22 - Irrelevant

~~CABINET-IN-CONFIDENCE~~

~~CABINET IN CONFIDENCE~~

It would be desirable for relevant agencies and industry operators to be advised of the proposed changes to the thresholds in advance of the cut-over time for import elements of the Integrated Cargo System on 12 October 2005.

Accordingly, I ask that you commence discussions with the states and territories immediately and advise me of the outcome as soon as possible, but no later than the end of this month.

This letter has been copied to the Treasurer,

s22 - Irrelevant

s22 - Irrelevant

s22 - Irrelevant

Assistant

Treasurer for their information.

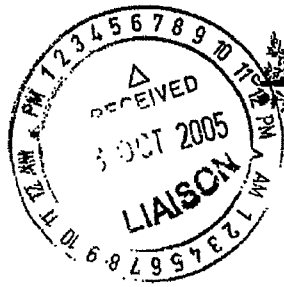
Yours sincerely

*Signed*

- 9 SEP 2005

(John Howard)

~~CABINET IN CONFIDENCE~~



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IN THE TREASURER'S OFFICE	
06 OCT 2005	
TREASURER'S OFFICE	
<input checked="" type="checkbox"/> Treasurer	<input checked="" type="checkbox"/> Secretary
<input checked="" type="checkbox"/> DA	<input checked="" type="checkbox"/> KOD
<input checked="" type="checkbox"/> DDG	<input checked="" type="checkbox"/> AK
<input checked="" type="checkbox"/> GB	<input checked="" type="checkbox"/> CH
<input checked="" type="checkbox"/> EM	<input checked="" type="checkbox"/> PB
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<input checked="" type="checkbox"/> Briefing	<input checked="" type="checkbox"/> No further Action
Secretary	
<input checked="" type="checkbox"/> Treasurer	<input checked="" type="checkbox"/> Department
<input checked="" type="checkbox"/> Chief of Staff	<input checked="" type="checkbox"/> Other
<input checked="" type="checkbox"/> Senior Adviser	
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224218

PRIME MINISTER  
CANBERRA

Senator the Hon Chris Ellison  
Minister for Justice and Customs  
Parliament House  
CANBERRA ACT 2600

My dear Minister

Refers to  
222873  
222633

I refer to my letter of 9 September 2005 regarding your request to align the revenue collection and Customs declaration thresholds for cargo (including mail) imported into Australia.

The Minister for Revenue and Assistant Treasurer has, I am advised, consulted the states and territories regarding the GST implications of the proposed alignment. s22 - Irrelevant

s22 - Irrelevant

I am further advised that the necessary regulations setting out the relevant thresholds need to be approved by Executive Council at its meeting on 6 October if the 12 October start date for the Integrated Cargo System (ICS) is to be met.

Approval is therefore given to you preparing the necessary regulations setting out across-the-board revenue collection and declaration thresholds at \$1,000 for the 6 October 2005 Executive Council meeting. The regulations should be drafted so as to provide the maximum amount of time possible for the states and territories to respond formally to the proposal.

You should inform me of your proposed approach in the event that one or more jurisdictions formally oppose the \$1,000 threshold noting the Australian Government's commitments under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. Your advice should include the scope for the implementation of the ICS to be delayed into early November if it is necessary so as to obtain at least majority state and territory support for the threshold proposal.

This letter has been copied to the Treasurer

s22 - Irrelevant

s22 - Irrelevant

s22 - Irrelevant

and Assistant

Treasurer for their information.

Yours sincerely

***Signed***

**5 OCT 2005**

(John Howard)

**SENATOR THE HON. CHRISTOPHER ELLISON**

Minister for Justice and Customs  
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Manager of Government Business in the Senate

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Prime Minister  
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#### **Recommendations**

I recommend that, subject to your agreement to Option 2, the necessary changes to Customs' relevant regulations and bylaws be made, and that I advise industry and the community in good time for the cut-over date to ICS imports of 12 October 2005. Because of the criticality of this decision to the operation of ICS, I also recommend that, if State/Territory agreement is not reached before mid September, you agree that officers of your Department and Customs settle on an appropriate threshold/s for importers and freight forwarders to make declarations and for revenue to be collected.

I have copied this letter to the relevant Ministers.

Yours sincerely



**CHRIS ELLISON**  
Senator for Western Australia



**Attachment A****REVENUE COLLECTION AND IMPORT DECLARATION THRESHOLDS****Background**

There are two thresholds that determine the treatment of imported goods. s22 - Irrelevant  
s22 - Irrelevant

This is the value at which the owner of the goods or agent is obliged to provide detailed information to Customs in the form of an import declaration. The current differential declaration thresholds are \$1000 for goods imported by post and \$250 for goods imported other than by post (that is, sea/air cargo). Goods with a value below these amounts can currently be cleared by less formal means. While freight forwarders are able to clear air/sea cargo quickly through electronic reports to Customs, in the postal environment there is a very low use of electronic systems and therefore mail clearance requires time-consuming manual processing arrangements.

Cost recovery charges apply to Customs declarations, for example, legislated Customs charges and AQIS charges. Industry also charges for its services, for example, information technology communicators, Customs brokers, freight forwarders.

Between 1975 and 1986, there was a common reporting threshold of \$250 for goods imported to Australia by air, sea and post. This was in line with the philosophy that legitimate trade should be facilitated, and formalities should otherwise not act as non-tariff barriers. In 1986 Customs increased the reporting threshold for postal items to \$1000.

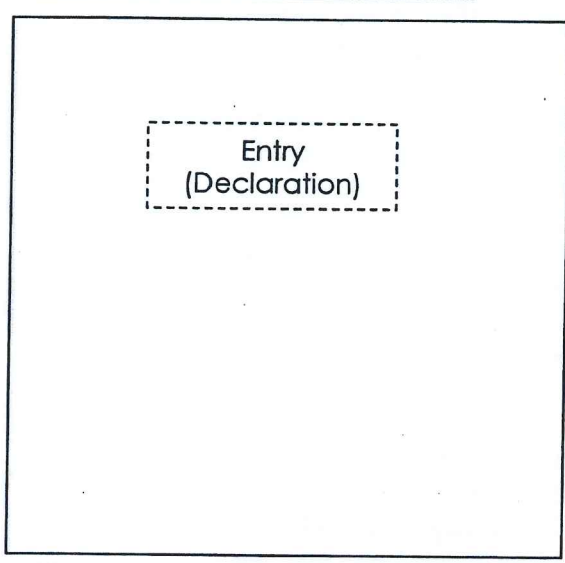
There is also a threshold amount above which revenue (duty/sales tax) is collected for each mode of importation [the 'screen-free' threshold or revenue concession] – it was \$20 from 1985 until 1991, when it was raised to \$50 by a change to the relevant Customs tariff by-law. This concession minimised delays in delivering mail and cargo, reduced the cost to business of importing low value consignments, and took account of uneconomical collection of duty and taxes.

A diagram setting out the current arrangements, and *Options 1* and *2* is at *Attachment B*.

ATTACHMENT B

Clearance of air/sea cargo (including postal articles) -  
Current arrangements

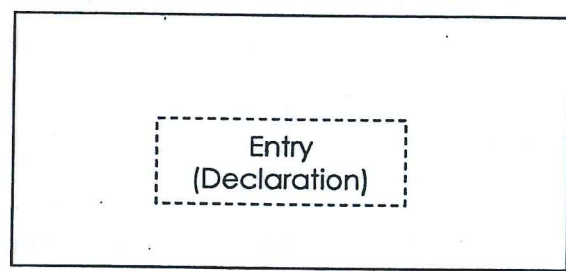
Current Air/Sea Arrangements



\$A250

Screen-free by Customs	Informal Clearance by importer/agent
≤ \$50 revenue collection assessment threshold	> \$50 duty/Gst collected

Current Post Arrangements



\$A1000

Screen-free by Customs	Processed by Customs
≤ \$50	> \$50 duty/Gst

65

**Option One** - \$A500 across the board for all air cargo/sea cargo/postal articles (for both revenue collection and Customs declaration).

All air/sea cargo

All postal articles

Import Declaration  
through Integrated  
Cargo System

Import Declaration  
through Integrated  
Cargo System

\$A500

Self-assessed clearance declaration  
(by importer/agent, through  
Integrated Cargo System)  
- no duty or GST collected other  
than for alcohol and tobacco

Screen-free (processed by  
Customs through automated  
non-integrated Cargo System)  
- no duty or GST collected other  
than for alcohol and tobacco



**Option Two** - \$A500 across the board for revenue collection; \$A500 for declaration of air cargo, sea cargo and s22 - Irrelevant articles, and \$A1000 for declaration of all other postal articles.

All air/sea cargo  
excluding postal  
articles

s22 - Irrelevant

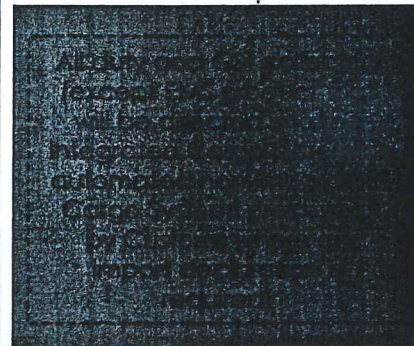
Other postal  
articles

Import Declaration  
through Integrated  
Cargo System

s22 - Irrelevant Import  
Declaration  
through  
Integrated  
Cargo System,  
or automated  
non-Integrated  
Cargo System  
processed by  
Customs

Import Declaration  
through Integrated  
Cargo System

\$A1000



\$A500

Self-assessed clearance  
declaration (by  
importer/agent through  
Integrated Cargo System)  
- no duty or GST collected  
other than for alcohol and  
tobacco

Screen-free (automated non-Integrated Cargo  
System, processed by Customs)  
- no duty or GST collected other than for  
alcohol and tobacco

**Option 1**

Aligning the revenue collection and declaration thresholds across-the-board (air/sea cargo and postal imports) at \$500.

**Impact on Customs Duty Revenue (\$m)**

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
Customs Duty	-2.0	-4.0	-4.0	-4.0	-4.0

**Impact on GST Revenue (\$m)**

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
GST	-2.0	-3.0	-3.0	-3.0	-3.0

s22 - Irrelevant

**Impact on Customs administrative costs (\$m)**

Customs	2005-06	2006-07	2007-08	2008-09
Fiscal	-2.5	-2.2	-2.2	-2.2
Underlying Cash	-2.5	-2.2	-2.2	-2.2

**Option 2**

Setting a revenue collection threshold across-the-board (air/sea cargo and postal imports) at \$500; and two different declaration thresholds – one for air/sea cargo and s22 - Irrelevant (or future equivalent) products at \$500; and the declaration threshold for other postal products at \$1000.

**Impact on Customs Duty Revenue (\$m)**

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
Customs Duty	-2.0	-4.0	-4.0	-4.0	-4.0

**Impact on GST Revenue (\$m)**

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
GST	-2.0	-3.0	-3.0	-3.0	-3.0



62

s22 - Irrelevant

**Impact on Customs administrative costs (\$m)**

Customs	2005-06	2006-07	2007-08	2008-09
Fiscal	-1.2	-1.1	-1.1	-1.1
Underlying Cash	-1.2	-1.1	-1.1	-1.1

**Option 3**

Aligning the revenue collection and declaration thresholds across-the-board (air/sea cargo and postal imports) at \$1000.

**Impact on Customs Duty Revenue (\$m)**

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
Customs Duty	-8.0	-12.0	-13.0	-13.0	-13.0

**Impact on GST Revenue (\$m)**

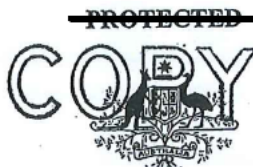
Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
GST	-6.0	-8.0	-8.0	-8.0	-9.0

s22 - Irrelevant

**Impact on Customs administrative costs (\$m)**

Customs	2005-06	2006-07	2007-08	2008-09
Fiscal	2.0	2.0	2.1	2.1
Underlying Cash	2.0	2.0	2.1	2.1

Notes: \* assumes early October 2005 start date.



Document 11361

102

**MINISTER FOR REVENUE AND  
ASSISTANT TREASURER**

The Hon Mal Brough MP

PARLIAMENT HOUSE  
CANBERRA ACT 2600

Telephone: (02) 6277 7360  
Facsimile: (02) 6273 4125  
assistant.treasurer.gov.au

The Hon John Howard MP  
Prime Minister  
Parliament House  
CANBERRA ACT 2600

<input type="checkbox"/> Priority A (date.....)	<input type="checkbox"/> Reply by Ellison
<input type="checkbox"/> Priority B	<input type="checkbox"/> Reply by Ruddock
<input type="checkbox"/> Priority C	<input type="checkbox"/> Brief required
<input checked="" type="checkbox"/> Appropriate Action	<input type="checkbox"/> Reply by COS
RECEIVED - 7 SEP 2005 29749	
<input type="checkbox"/> Reply by AGD	Action Area: Customs
Init: K2	
Date: 7/9	

K2/MSB/CG

06 SEP 2005

Dear Prime Minister

I refer to the letter to you dated 23 August 2005 from the Minister for Justice and Customs, Senator the Hon Chris Ellison, concerning the alignment of revenue declaration and Customs declaration thresholds for postal and courier imports. I am writing on the Treasurer's behalf in relation to this matter.

As there is a discrepancy in the treatment of postal consignments carried by private couriers and identical consignments carried by s22 - the Australian Government Competitive Neutrality Complaints Office recommended in 2000 that the import entry thresholds be aligned.

In order to strike a balance between revenue considerations and administrative simplicity, I note that Minister Ellison has proposed to set the revenue collection threshold at \$500 across the board (air/sea cargo and postal imports) with two different formal declaration thresholds — one for air/sea cargo and s22 - Irrelevant products at \$500 and one for other postal products at \$1000. s22 - Irrelevant This is described as Option 2 in Minister Ellison's letter.

From a tax revenue (customs duty and GST) perspective, I note that there is no difference between this option and Option 1 (Option 1 would also set the revenue collection threshold at \$500 across the board, but has a single formal declaration threshold set at \$500). While Option 1 has the attraction of simplicity, it is estimated to bring an additional 88,000 parties, mainly private, into the formal system of customs entry. The corresponding figure for Option 2 is 39,000 which is significantly lower, but is nevertheless an increase.

I consider it is desirable to minimise the exposure of private parties to additional complexity and cost, particularly where there is no effect on tax revenue.

Removing many parties, both business and private, from the requirement for formal or informal customs entry would occur by implementing a \$1000 across-the-board threshold (described as Option 3 in Minister Ellison's letter). However, this option is estimated to result in a greater revenue loss, consisting of customs duty (\$12 to 13 million per year) and GST (\$8 to 9 million per year). I note that it took over 12 months to obtain the agreement from states and territories to change the passenger duty free concessions which had an estimated annual GST cost of \$17 million per year, despite the fact that the tourism industry and airports within their jurisdictions saw benefits in the revised regime and made representations to the states and territories accordingly.

~~PROTECTED~~





101

Moreover, I note that in accordance with usual costing does not take into account behavioural over time. The implementation of a \$1000 across consumers to import low-valued products (of less than \$1000) would result in the payment of Australian taxes, which in turn could have an adverse effect on the economy.

Taking all these factors into account, I favour a balance between revenue considerations, administrative costs and territories. I note that while it is still a formal system under this option, this will most likely result in the new threshold levels being set at \$1000. s22 - Irrelevant

s22 - Irrelevant

Under the Intergovernmental Agreement (IGA) on Relations, the states and territories would need to be collected would be reduced by a small amount. Minister Ellison's proposal, I will write promptly to the agreement.

However, as you may be aware I expressed in my letter of 17 August 2005, that there may be insufficient territories given that Minister Ellison has announced that the existing customs system, which would be available past 12 October 2005. The Integrated Cargo System (ICS) would not be able to accommodate the existing thresholds. I remain concerned that the timing of state and territory approval poses an issue. Minister Ellison's suggestion to disregard the provisions of the IGA if the agreement of the state and territories is not obtained by mid-September would have wider ramifications and would need careful consideration.

The Hon Mal Brough, MP  
Minister for Revenue and the Assistant Treasurer.

I have copied this letter to the Minister for Justice and Customs, the Treasurer, and the Minister for Finance. s22 - Irrelevant

s22 - Irrelevant

Yours sincerely

MAL BROUGH



<input type="checkbox"/> Priority A (date.....)	<input type="checkbox"/> Reply by Ellison
<input type="checkbox"/> Priority B	<input type="checkbox"/> Reply by Ruddock
<input type="checkbox"/> Priority C	<input type="checkbox"/> Brief required
<input checked="" type="checkbox"/> Appropriate Action	<input type="checkbox"/> Reply by COS

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<input type="checkbox"/> Reply by AGD	Action Area CUSTOMS
	Init KZ
	Date 6/10



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105

RECEIVED

5 - OCT 2005

MINISTER FOR  
JUSTICE & CUSTOMS

PRIME MINISTER  
CANBERRA

5 OCT 2005

Senator the Hon Chris Ellison  
Minister for Justice and Customs  
Parliament House  
CANBERRA ACT 2600

My dear Minister

I refer to my letter of 9 September 2005 regarding your request to align the revenue collection and Customs declaration thresholds for cargo (including mail) imported into Australia.

The Minister for Revenue and Assistant Treasurer has, I am advised, consulted the states and territories regarding the GST implications of the proposed alignment.

s22 - Irrelevant

s22 - Irrelevant

I am further advised that the necessary regulations setting out the relevant thresholds need to be approved by Executive Council at its meeting on 6 October if the 12 October start date for the Integrated Cargo System (ICS) is to be met.

Approval is therefore given to you preparing the necessary regulations setting out across-the-board revenue collection and declaration thresholds at \$1,000 for the 6 October 2005 Executive Council meeting. The regulations should be drafted so as to provide the maximum amount of time possible for the states and territories to respond formally to the proposal.

You should inform me of your proposed approach in the event that one or more jurisdictions formally oppose the \$1,000 threshold noting the Australian Government's commitments under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. Your advice should include the scope for the implementation of the ICS to be delayed into early November if it is necessary so as to obtain at least majority state and territory support for the threshold proposal.

104

This letter has been copied to the Treasurer.  
s22 - Irrelevant

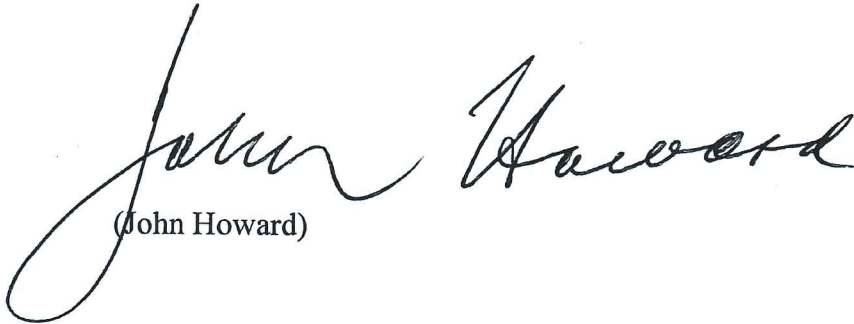
s22 - Irrelevant

s22 - Irrelevant

and Assistant

Treasurer for their information.

Yours sincerely

  
(John Howard)