



Australian Government
**Australian Customs and
Border Protection Service**

**LOW VALUE IMPORT THRESHOLD
ENHANCED COMPLIANCE CAMPAIGN
REPORT**

JANUARY – MARCH 2011

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1. OVERVIEW

On 18 December 2010, the Minister for Home Affairs announced that Customs and Border Protection would undertake a compliance campaign to ensure GST and customs duty concessions for imports with a value of \$1,000 or less (the current low value import threshold) were not being abused or exploited.

This document outlines the results from the campaign which commenced at the beginning of January 2011 and ran until the end of March 2011.

In summary, the campaign identified 1,942 underpayments, with a total revenue liability of \$718,000. The majority of errors and revenue liability came from Customs and Border Protection's on-going activities directed at identifying non-compliance.

Although the campaign has shown the effectiveness of Customs and Border Protection's existing compliance activities, specific outcomes from the campaign are being used to tailor these activities to emerging areas of risk.

Low Value Threshold

A threshold is applied in order to determine whether GST and customs duty is collected on goods imported into Australia.

This threshold is administered by Customs and Border Protection and is currently set at \$1,000, although some goods are exempt such as alcohol and tobacco products.

Enhanced Compliance Campaign Design

The campaign was designed to treat concerns raised by industry about non-compliance with the low value threshold.

Objectives

The two primary objectives of the campaign focused on assessing the extent to which:

- goods imported from overseas were being undervalued to avoid GST and duty; and
- shipments were being deliberately broken down into smaller imports to take advantage of this threshold.

Scope

The campaign was conducted across international mail, air cargo and sea cargo.

Activity was comprised of:

- normal business as usual activities focused on identified and known areas of risk;
- sampling activities to test assumptions across the general population; and
- targeted programs to test specific areas of concern.

Focus

In undertaking the campaign, Customs and Border Protection sought input from industry through a survey issued in January 2011 for particular areas of alleged non-compliance. Customs and Border Protection also held two forums to outline the on-going results from the Campaign and to hear any specific areas of concern for non-compliance.

In response to concerns raised, the campaign took a focus on particular commodities of concern and countries where a high number of low value goods originate. These included:

- electronic goods
- sporting goods (including bicycles and parts);
- musical instruments (including guitars);
- clothing; and
- cosmetics.

Process

During the campaign, Customs and Border Protection undertook increased examinations of international mail articles and assessments of Self Assessed Clearance (SAC) declarations in air and sea cargo.

Across all three streams, this involved Customs and Border Protection contacting consumers and businesses importing goods to confirm the purchase price of goods. Where Customs and Border Protection detected errors (i.e. where goods worth over \$1,000 were found to be undervalued or part of a bulk order), the importer was required to make the appropriate declaration, and pay the relevant GST, customs duty and import processing charge.

Where there was evidence of deliberate non-compliance or rorting, consideration was given to issuing penalties. Penalties range from small fines up to 3 times the value of the goods, depending on the seriousness of the offence.

2. OVERALL ASSESSMENT OF NON-COMPLIANCE

Over the three months of the campaign, Customs and Border Protection more than doubled the number assessments usually undertaken on self-assessed clearances in air and sea cargo and increased physical examinations of international mail by 75%.

In total, 33,000 physical examinations were undertaken on international mail articles and 32,000 assessments were undertaken on air and sea cargo declarations to assess compliance with the low value threshold.

These 65,000 interventions resulted in 1,942 instances of undervaluation and bulk orders in breach of the low value import threshold.

Results from the random sampling element of the campaign, which are reflective of the general population, showed non-compliance rates of:

- 0.1% in international mail; and
- 2% in air and sea cargo SAC declarations.

In comparison, Customs and Border Protection's on-going activity directed at areas of high risk showed rates non-compliance of:

- 3.2% in international mail; and
- 9% in air and sea cargo SAC declarations.

The revenue underpayments identified as a result of the campaign totalled \$718,000. This comprised:

- \$429,000 in additional GST payments;
- \$128,000 in additional duty payments; and
- \$160,000 in deferred GST was identified.

Of the \$718,000 of the revenue identified, around \$503,000 was a result of the business as usual activity undertaken by Customs and Border Protection. An additional \$215,000 was collected from campaign activity.

The revenue leakage data collected from the random sampling undertaken during the campaign has been used to estimate the total revenue leakage as a result of non-compliance with the low value import threshold.

On the basis that Customs and Border Protection processes around 8.2 million air and sea cargo SAC declarations and 163 million international mail articles per year, the estimate of revenue leakage due to non-compliance with the low value threshold equates to around \$57.5 million per year. This figure is made up of approximately \$39 million in the air and sea cargo environment and \$18.5 million in the international mail environment. This represents approximately 0.66% of the \$8.7 billion in revenue that Customs and Border Protection collected in 2009 - 2010 financial year.

From the campaign, Customs and Border Protection has issued a range of penalties, or is in the process of considering individual cases. In total, 183 penalties are being prepared under the Indirect Taxation Administrative Penalties scheme, 80 Non-Compliance Records are being prepared under the Infringement Notice Scheme, and 7 Infringement Notices are being prepared under the Infringement Notice Scheme.

3. ASSESSMENT OF BULK ORDERS

The *Customs Tariff Act 1995* excludes goods that form part of a bulk-order from receiving the concessional treatment applied to low value goods (Bylaws 32a and 32b to Schedule 4).

This is to ensure importers do not intentionally split consignments of cargo into multiple consignments to avoid the payment of relevant duties and taxes.

In instances where a consignment is split, the duty, GST and taxes must be paid regardless of the Customs value of that part of the shipment. This is the case even if the Customs value is at or below the entry threshold of \$1,000.

Of the 65,000 consignments assessed during the campaign, 292 bulk orders were identified in the cargo stream with 30 identified in the international mail stream.

Bulk orders generally arise as a result of a contractual arrangement between importer and supplier and are not always visible when assessing a single transaction.

In the international mail environment where there is no electronic reporting and a risk based regime is in place for the manual inspection of mail articles, it is difficult for an officer to recognise similar goods being posted to the same importer as part of a bulk order.

Examples of bulk orders identified in the campaign:

- Air and Sea Cargo - a consignment of MP4 players was found to be part of a bulk order. The customs value had been recorded as \$970 and was revised to \$216,913 after intervention. The GST deferred amount was \$22,990.

- Mail - two individual packages of beer faucet and accessories from the USA were found to be a part of bulk consignments with six packages totalling \$21,326.14 in value. A Full Import Declaration (FID) was lodged resulting in \$2,324.39 payable GST.

Of the \$625,286 collected in the air and sea cargo stream, \$32,663 was identified from bulk orders.

4. ASSESSMENT BY COMMODITIES OF CONCERN

Electronic goods, sporting goods, musical instruments, clothing and cosmetics were identified as commodities of concern prior to the campaign.

There was focus applied to these commodities by way of a profile program in the air and sea cargo environment and increased scrutiny in the mail environment.

Positive Results Snapshot Analysis – Commodity

Commodity ¹	Cargo (SAC) positive results	Positive results as a percentage of total SACs Assessments	Cargo (SAC) revenue implication identified	Mail positive results	Positive results as a percentage of total mail examinations	Mail revenue implication identified
Sporting Goods	62	0.2%	\$12,102	51	0.2%	\$11,519
Musical Instruments	29	0.1%	\$6,127	26	0.1%	\$5,398
Electronic Goods	344	1.1%	\$110,848	106	0.3%	\$23,375
Clothing	237	0.7%	\$110,278	20	0.1%	\$5,070
Cosmetics	19	0.1%	\$4,517	4	0.0%	\$1,747
Other	913	2.9%	\$381,414	118	0.4%	\$33,450
TOTAL	1,604		\$625,286	325²		\$80,559³

A range of goods are included in the 'other' category. The largest proportion of positive results included as 'other' are:

- documents, books, printed matter, brochures and printed guides - 77 positive results with \$44,149 in SAC revenue implication identified;
- parts - 63 positive results with \$16,036 in SAC revenue implication identified. This included goods described as: machine parts, aircraft parts, mechanical parts and lift parts;
- auto - 57 positive results with \$12,794 in SAC revenue implication identified. This includes goods described as auto parts, automobile parts, car parts, engine, tire, wheels, exhaust parts, brake kits; and
- jewellery - 47 positive results with \$13,362 in SAC revenue implication identified.

The remaining positive results in 'other' came from a variety of goods including paintings, metal, plastic, power adaptors, steel, wine, eyewear, tobacco, cigarettes, beer, olive oil, educational material, transcripts, optical wear, sunglasses, promotional material, and other mixed goods.

¹ Goods description is a free text field in cargo and mail environments so officers manually recorded items against these broad commodity categories.

² The number of confirmed positive results is 338. Some data from March was corrupted so campaign specific information for 13 lines of positive results is not available.

³ The amount of revenue collected from International Mail Gateways was \$92,942. Some data from March was corrupted so campaign specific information for 13 lines of positive results is not available.

Electronic goods, particularly from USA and Hong Kong, made up a high proportion of undervaluation across both SACs and international mail. In total, it accounted for 450 positive results including 38⁴ bulk orders. This group includes products such as computers, laptops, cameras, navigational devices, audio and video equipment.

Textiles clothing and footwear (TCF), predominantly from China, Hong Kong, the United States and India, had a higher rate of non-compliance than other goods, with 257 positive results and 71⁵ bulk orders. This commodity group included garment, wedding dress, clothing, shoe, hat and fabric.

Sporting equipment from the USA was found to have been undervalued in 40 consignments, averaging approximately \$300 in revenue recovered per consignment. The remainder of positive results for sporting equipment came from a variety of countries.

5. NEXT STEPS FOR CUSTOMS AND BORDER PROTECTION

Existing compliance measures have been reviewed in light of the results of the campaign.

Although the overall level of non-compliance detected was low, Customs and Border Protection are undertaking some specific actions in relation to the outcomes of the campaign. This includes:

- continuing to assess the business models of high volume users, to ensure the requirements of the low value threshold are being met;
- working in consultation with the Australian Taxation Office to ensure GST payments are being appropriately collected through sharing of relevant data;
- refining our profile and targeting to account for some specific destinations, suppliers and commodities that have been identified as more likely to be non-compliant;
- putting in place a low value threshold monitoring regime in the sea and air cargo environment to monitor compliance and identify other non compliant entities;
- reviewing our suite of compliance treatments to effectively deal with recidivists. This will include direct communication with non-compliant suppliers and undertaking saturation exercises on the highest risk entities; and
- reviewing our current schedule of campaign activity in the international mail environment to incorporate additional revenue compliance related activities at peak times of the year, including the lead up to Christmas.

⁴ This figure is only reflective of SACs where bulk orders were categorised by commodity.

⁵ This figure is only reflective of SACs where bulk orders were categorised by commodity.

APPENDIX 1 – OVERALL RESULTS

Overall results

Self Assessed Clearances (SACS)			International Mail (IM)		
Number of SAC Assessments	BAU	Campaign	Number of IM Examinations	BAU	Campaign
	11,199	20,602		9,699	23,822
Requests for Evidence of Purchase Price	4,322	7,377	Requests for Evidence of Purchase Price	1,180	154
Requests Outstanding	69	283	Requests Outstanding	162	154
Positive Results	1,024	580	Positive Results	312	26
Bulk orders & split consignments (subset of positive results)	292		Bulk orders & split consignments (subset of positive results)	30	

Air and Sea Cargo

SACs	Business as Usual Activity	Campaign activity		
		Sample - Random	Sample - Discovery	Targeted
Number of finalised assessments	11,199	7,708	3,090	9,804
Number of SACs amended to Full Import Declarations	1,024	210	45	325
Revenue – GST paid	\$261,396.85	\$28,516.48	\$1,546.16	\$59,431.61
Revenue – GST deferred	\$121,627.66	\$6,259.33	\$3790.85	\$29,204.73
Revenue – Duty paid	\$84,996.95	\$8,795.78	\$1,234.94	\$18,484.72
Total revenue implication identified	\$468,021.46	\$43,571.59	\$6,571.95	\$107,121.06
Average revenue implication per identified consignment	\$457	\$207	\$146	\$330

International Mail

International Mail	BAU & Targeted	Sample
Number of finalised assessments	9,699	23,822
Number of consignments amended to Full Import Declarations	312	26
Revenue – GST paid	\$78,260.67	
Revenue – Duty paid	\$14,681.56	
Total revenue implication identified	\$92,942.23	
Average revenue implication per identified consignment	\$275	

Note The information in these tables is based on data extractions from Customs and Border Protection systems on 12 April 2011. Activity was comprised of business as usual (BAU) activities focused on identified and known areas of high risk, sampling activities to test assumptions across the general population and targeted programs to test specific areas of concern.