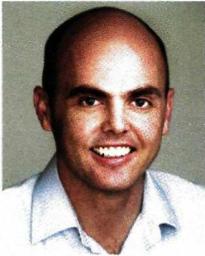


The big picture: matters of import and tax for SME retailers

With the falling dollar, all Australian retailers that import goods for sale are hurting. The hurt is likely to increase as tax and importing reforms that are designed to protect Australian retailers will also pack a punch for the most exposed: SMEs.



Peter McRae

CEO

Tax and importing reforms now under consideration won't always protect those I believe are at high risk: independent retailers offering the market something unique, and already struggling under the pressure of local competition.

The US dollar exchange rate for the Aussie dollar has recently fallen almost to 0.70. Six months ago it was 0.77, a year ago it was 0.92. We're looking down the barrel at 0.60 by December 2016.

In relation to importing, retailers are paying more (for the same) in these critical ways:

Increased AUD value of goods landed

The goods value is calculated on the day the stock departs from overseas, which means uncertainty for small importers (SME retailers). The lower Aussie dollar equates to a higher value of goods, which flows on to higher import duty, GST and an import processing charge (IPC).

Increased shipping costs

Prices have risen because shipping costs are quoted in US dollars.

Increased sea freight, Australian port and destination charges



These are charged in Australia when the goods arrive, but often they are determined and quoted in USD – again, they will increase.

SMEs can't just increase their prices to meet the added cost, or they will lose customers. So margin suffers. They also can't negotiate lower costs with suppliers to recoup lost margin, as their buying power isn't strong enough.

The outlook is a retail landscape – with less colour, less originality, less quirk and raw style – that will suffer the loss of independents as long as the dollar plummets.

However, under current importing laws, some of which are due to change in 2017, independents and SMEs also have some opportunities.

With smart importing advice, they can find ways to save where their bigger competitors can't, and this is not entirely dependent on the dollar. These ways are:

Quantity control

Importing small quantities of stock for samples or special ranges can keep imports under Australia's current (and generous) \$1,000

tax-free threshold. This means no duty charges, no GST and no IPC on the goods. Small players very close to their stock might make three or four orders in close succession, via separate shipments, effectively drip-feeding their stores with stock to save five per cent duty, 10 per cent GST and an IPC of between \$40.20 and \$73 on each occasion. That's smart importing.

GST free for the smallest

If an enterprise has a GST turnover (gross income minus GST) of \$75,000 or less, they are not required to register for GST. They don't pay it and they don't charge it. So being very small can cost less and can be reflected in lower price tags on goods. Of course, if a retailer's imports are still over \$1,000 then they must pay GST.

Negotiate Australian port charges before the cargo departs

International suppliers have pre-existing deals with preferred freighters, which, if not negotiated before the stock leaves the factory, can significantly cost the importer (last month we saved one client \$2,200 on port costs for one

shipment alone).

Change is imminent

The number of international mail parcels imported doubled to more than 48 million between 2006-07 and 2010-11, since when the number has nearly doubled again. The fastest growth has been in imports under the \$1,000 threshold. One can

safely assume the bulk of these are international purchases by individual consumers, shipping via the postal system, not SME retailers as a rule.

This is what has led to a proposed lowering of the tax-free threshold to zero for Australian importing in mid 2017. So the opportunities outlined above are not longstanding.

The future explained

Reducing the tax-free threshold is viable on world standards and will level the playing field and ensure that individuals buying internationally pay the same taxes and fees that Australian retailers pay and pass to the consumer already.

The losers in the new system are SME retailers, because it takes away the advantages they currently enjoy. There will be considerably less flexibility for them to manage imports under the threshold, and therefore less opportunity for smaller retailers to sample new ranges at an affordable cost (without duty, GST and importing charges) and for an independent store to be drip-fed ranges month by month, shipped as separate small orders.

Without the threshold, importers will face import duty, GST and IPC on all items brought in, and with GST reform also under discussion, current GST exemptions will be null. There will be additional pressure for food and drink importers that, under the proposal, will go from paying zero GST to 15 per cent.

This is the dawning of a new

economic age and, specifically, a new retail age. Yes, it's born of necessity, but many parts of the picture have not yet been fully painted, or broadly understood.

It's time to clearly understand the situation, the changes to occur and their far-reaching effects. SMEs need to brace for change that, for them in particular, is not entirely promising. ♦

Peter is an internationally recognised customs broker and the CEO and founder of Platinum Freight Management, a leading independent national customs brokering and freight forwarding company, which he launched in 2000. He is certified as an Australian and New Zealand Customs Broker and a US and Canadian Customs and Trade Compliance Specialist. Peter is a senior lecturer in customs law and administration and holds a Master of International Customs Law and Administration as well as a Master of International Revenue Administration. Platinum has offices across Australia and New Zealand.

About Platinum Freight Management

Platinum Freight operates seven days a week with extended hours, customs-clearing cargo that enters and exits Australian ports and terminals through both the Australian Customs and Border Protection Service (ACBPS) and the Department of Agriculture, Fisheries and Forestry. The customs-

clearance formalities include processing air cargo, sea-freight cargo, parcel-post shipments and passengers carrying stock or equipment. Platinum Freight has offices in all states and territories and services clients that range from individuals to small and medium businesses and large companies. The ACBPS has rated Platinum Freight as "highly compliant".