



## AUSTRALIAN CUSTOMS NOTICE NO. 2005/23

### International transport and insurance and the value of the taxable importation

This Notice provides guidelines to assist owners and their customs brokers in establishing the transport and insurance elements of the value of the taxable importation (VoTI). It supplements GST Ruling 2003/15 ("Importation of goods into Australia") that was issued by the Australian Taxation Office (ATO) on 10 December 2003. Paragraphs 260 to 273 in that ruling deal with transport and insurance issues. Australian Customs Notice 2000/35 has been superseded by that Imports Ruling and is hereby withdrawn.

In a self assessment environment it is the owner's responsibility to establish and declare the amount paid or payable for the international transport of the goods to Australia and to insure the goods for that transport. Customs requires accurate reporting of this transport and insurance information in order to establish the correct GST liability for imported goods.

#### What is the VoTI?

Goods and Services Tax (GST) is levied on imported goods at 10% of the value of the taxable importation (VoTI). Section 13-20 in the *A New Tax System (Goods and Services Tax) Act 1999* (GST Act) – copy included on the last page of this notice - provides that the VoTI is the sum of:

- the customs value of the goods;
- the amount paid or payable for the international transport of the goods to their place of consignment in Australia and to insure the goods for that transport;
- any customs duty payable; and
- any wine tax payable.

#### Place of consignment

"International transport" is defined in section 195-1 of the GST Act. In relation to the importation of goods it means:

"... the transport of the goods from a place outside Australia to their place of consignment in Australia (excluding loading and handling within Australia)".

"Place of consignment" is also defined in section 195-1 to mean:

- "(a) if the goods are posted to Australia – the place in Australia to which the goods are addressed; or
- (b) in any other case – the port or airport of final destination as indicated on the transportation document".

Paragraphs 261 to 267 in GST Ruling 2003/15 provide guidance in relation to these terms. Paragraph 264 of that ruling indicates that the Taxation Commissioner accepts that goods weighing less than 31.5 kilograms that are transported to Australia and delivered "door-to-door" by an international express courier service (or similar door-to-door courier) are "goods posted to Australia".

### **No need to separately identify transport and insurance**

Owners lodging entries electronically do not have to calculate the VoTI. They are required to provide enough information for the Customs import processing system to derive the VoTI. Owners must complete either the Free-On-Board (FOB) field and the Cost-Insurance-Freight (CIF) field in the header of the import declaration or provide enough information to allow these amounts to be calculated by the system. The system deducts FOB from CIF to arrive at the total transport and insurance figure (in Australian dollars) so there is no need to separately identify a combined transport and insurance figure or a transport figure and an insurance figure.

### **Apportionment**

The GST Act does not prescribe a method of apportionment of transport and insurance across the different lines of goods included in a consignment. Note that the method of apportionment does not affect the total amount of GST payable on the consignment unless it contains a mixture of both taxable and non-taxable lines of goods.

The Customs import processing system apportions the total transport and insurance amount across import declaration lines according to import declaration line value. There is provision to override this apportionment if the owner can provide more appropriate data. For example, international transport costs may be more appropriately apportioned across import declaration lines in accordance with weight or volume; international insurance may be more appropriately apportioned across import declaration lines in accordance with insurance risk levels.

The apportionment override is achieved by manually apportioning the transport and insurance across all lines and providing a calculated amount in the TILV (Transport and Insurance Line Value) field on each import declaration line. The import processing system carries out an edit check to ensure that the total of all TILV line amounts equals the total transport and insurance amount for the complete import declaration. The VoTI is calculated by the system for each line on the basis of the manual TILV amount included on that line.

### **Amount paid or payable**

If the transport or insurance amount has been paid, the amount paid is to be declared on the import declaration. Otherwise, the amount payable is to be declared on the import declaration.

### **Use of subcontractors**

Where the international transport service is provided to the owner by a service provider (eg freight forwarder or customs broker), the amount paid or payable by the service provider to a subcontracted transport provider (eg shipping company, slot charterer or airline) is not relevant for VoTI purposes. The relevant amount of transport or insurance that is to be included in the VoTI in these circumstances is the amount paid or payable to the service provider (eg freight forwarder or customs broker) by the person making the taxable importation.

### **Currency conversion**

Where a foreign currency amount is paid or payable for transport or insurance, subsection 13-20(2A) of the GST Act provides that the exchange rate to be used to convert that amount into Australian currency is the ruling rate of exchange on the day of exportation of the goods to Australia.

This provision is not relevant if the person making the taxable importation pays an amount in Australian currency. In particular, where an invoice calculates the amount payable of transport or insurance by converting a foreign currency amount to Australian currency using an "agreed" conversion rate, the amount payable is expressed in Australian currency. In such cases, the amount payable for the transport or insurance of the goods is the Australian currency amount.

### **Amount payable not known at the time of import declaration**

In some circumstances, the amount payable for transport or insurance is not known to the owner at the time the import declaration is prepared. Those circumstances include:

- the supplier of the transport or insurance does not issue an invoice until a later date;
- the owner will not pay the foreign currency amount of transport charged by a subcontracted transport provider because the owner will pay an Australian currency amount that is still to be invoiced by the owner's service provider;
- the owner will not pay the amount of transport charged by a subcontracted transport provider because the owner's service provider will add its own service charge; and
- another entity is responsible for paying the transport or insurance costs (eg Cost-and-Freight; Cost-Insurance-Freight) and the amount paid or payable is commercially confidential.

Customs acknowledges that, in certain circumstances, difficulties exist for owners and their customs brokers in establishing, at the time the import declaration is prepared, the exact amount paid or payable for transport and insurance. The absence of precise information about transport or insurance need not, however, cause unnecessary delays in cargo delivery. If owners wish to obtain Customs clearance before accurate information about the transport or insurance costs is available, they might choose to use an estimate.

In deciding to estimate the amount of transport or insurance paid or payable, an owner or broker would need to ensure that the estimate was soundly based and closely approximated the amount actually paid or payable. If an estimate is subsequently shown to be incorrect to a material extent, an amended import declaration is required, whether or not:

- the owner is entitled to an input tax credit in relation to the importation; or
- the owner is approved for GST deferral; or
- the owner's underpayments are "offset" by overpayments.

### **Door-to-door transport**

Where the transport of goods (other than those 'posted to Australia' – see GST Ruling 2003/15 paragraphs 263 and 264), is provided on a door-to-door basis, it is necessary to establish the amount paid or payable for the "international transport" and the amount paid or payable for the Australian domestic transport.

In cases where separate components are identifiable, the actual amount of the "international transport" component must be used for VoTI purposes.

In cases where the service provider supplies a comprehensive door-to-door service, an owner or broker may be unable to determine the actual cost of the "international" transport and the domestic transport. Where this is the case, an owner or broker may apportion the amount paid or payable into an international component and a domestic component. The international component only is included in the VoTI.

As an interim measure to assist owners and customs brokers, the ATO has determined a standard basis of apportionment between the domestic and international components of door-to-door transport charges. For the time being, the ATO accepts that the international component is 95% of the fee for a door-to-door transport service.

The 95% standard for the international component applies across the international freight industry for door-to-door movements of goods. Any person providing these services may use 95% in instances where international and domestic components are provided by the same service provider and the international and domestic legs are not charged separately. It is emphasised that the actual values of the international and domestic components must be used where they are known.

The above apportionment is provided by the ATO as a 'safe harbour' ruling. Operators in the international freight business can use this ruling with confidence that the ATO will accept that its use will result in a proper determination of their liability for GST in relation to the supply of

domestic freight movements. Customs applies this ruling equally in respect of VoTI (and the amount 'paid for the international transport').

Alternatively, individual operators may make submissions to the ATO and Customs, supported by appropriate evidence, for a different apportionment.

### **Self-transported goods**

It is necessary to include the amount paid or payable for international transport in the VoTI in all cases, including those where the goods are transported to Australia by the person who imports them. For example:

- where goods are imported by passengers as accompanied baggage;
- where goods are imported by safe-hand couriers;
- where aircraft or vessels are transported to Australia under their own power; or
- where goods are imported by the person who owns the pipeline, aircraft or vessel that provided the international transport of those goods.

Paragraph 273 in GST Ruling 2003/15 provides guidance in relation to cases where the amount paid or payable for international transport or insurance is zero. The ruling cites, as an example of where the amount payable is zero, the case of non-commercial goods imported by their private owner as accompanied baggage on an aircraft (provided no separate amount is charged for the transport of the goods). The ruling indicates that this would not include goods imported by safe-hand couriers (or owners) who travel for the sole purpose of personally transporting the goods.

The costs incurred by an owner in transporting a ship or aircraft to Australia must be included in the VoTI. These costs would include, for example, crew wages and accommodation en route, food, bunkers, canal fees, etc.

Similarly, the costs incurred by an owner in transporting goods to Australia using their own pipeline, ship or aircraft must be included in the VoTI. However, if the transport of those goods was incidental to the purpose of the voyage to Australia and there was no separate transport charge in relation to the goods, the amount paid or payable for the international transport would be zero.

### **Insurance**

If an owner wishes to separately identify the amount paid or payable for insurance, he or she should use the following methodology:

- where the actual amount paid for the particular transaction is known, use that amount;
- in the case of an annual insurance policy, use the same rate for the individual transaction as has been applied to arrive at the total premium;
- if the amount paid is zero, use zero.

### **Compliance**

In fulfilling its responsibility to ensure that GST on imported goods is correctly paid or is appropriately deferred, Customs adopts a risk-managed approach in accordance with its regulatory philosophy.

Customs recovers any material short payments of GST that are identified and records such errors in the compliance history record of the owner and the customs broker.

Administrative penalties under the *Taxation Administration Act 1953* (TAA) apply where a false or misleading statement results in a shortfall amount and the shortfall amount has arisen because the person failed to take reasonable care, was reckless or intentionally disregarded a taxation law. In such cases, the behaviour of the taxpayer or the taxpayer's agent determines the extent of the indirect tax penalty imposed. This assessment would include consideration of compliance history records of previous indirect tax short payments.

Any consideration of a penalty under the Infringement Notice Scheme for Customs offences (sections 243T and 243U of the *Customs Act 1901*) would not take account of compliance history records of indirect tax short payments.

A taxpayer can request a remission of the penalty or can object to the penalty assessment in the manner set out in Part IVC of the TAA. Lodgement of an objection does not interfere with, or affect, the taxpayer's obligation to pay the assessed amount.

Inquiries concerning this notice may be directed to Director Trade and Tax Liaison, Trade Branch on telephone number (02) 6275 5938 or fax number (02) 6275 6471.

Andrew Rice  
National Manager  
Trade Branch  
CANBERRA ACT

June 2005

**Extract from the *A New Tax System (Goods and Services Tax) Act 1999*:**

**13-20 How much GST is payable on taxable importations?**

- (1) The amount of GST on the \*taxable importation is 10% of the \*value of the taxable importation.
- (2) The **value** of a \*taxable importation is the sum of:
  - (a) the \*customs value of the goods imported; and
  - (b) the amount paid or payable:
    - (i) for the \*international transport of the goods to their \*place of consignment in Australia; and
    - (ii) to insure the goods for that transport;  
to the extent that the amount is not already included under paragraph (a);  
and
  - (c) any \*customs duty payable in respect of the importation of the goods; and
  - (d) any \*wine tax payable in respect of the \*local entry of the goods.
- (2A) If an amount to be taken into account under paragraph (2)(b) is not an amount in Australian currency, the amount so taken into account is the equivalent in Australian currency of that amount, ascertained in the way provided in section 161J of the *Customs Act 1901*.
- (3) The Commissioner may, in writing:
  - (a) Determine the way in which the amount paid or payable for a specified kind of transport or insurance is to be worked out for the purposes of paragraph (2)(b); and
  - (b) In relation to importations of a specified kind or importations to which specified circumstances apply, determine that the amount paid or payable for a specified kind of transport or insurance is taken, for the purposes of that paragraph, to be zero.