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TITLE: **High profits not high taxes driving shoppers online**

AUTHOR: **Dr Richard Denniss**

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According to Australia's big retailers the Australian tax system is making them uncompetitive against overseas online stores. Poor old Gerry Harvey says he will have to set up an online shop in China so that he too can ensure that Australians importing things worth less than $1,000 via the internet can avoid paying GST. But is the tax system really the main reason for high prices in Australia, or has it got more to do with high profit margins?

A couple of clicks online easily confirm how profitable retail is in Australia, and how much Australia's retailers have to fear from the trend to online shopping. The jewellery chain Tiffany, for example, will supply a pair of solitaire diamond earrings, set in platinum, for $US 1,000 to American citizens who log onto their American website. Australian consumers, on the other hand, who log onto Tiffany's Australian website will find that the same earrings here will cost $A1,500.

Damn that GST. But hang on, the GST is only 10 per cent. And Americans have to pay sales tax. So how can a ten per cent tax in Australia explain a fifty per cent higher retail price?

It gets worse. You might think it is easy to simply save yourself $500 by logging on to the US Tiffany site and ordering yourself some new diamonds, but fortunately for the Australian retailer, the US site won't sell their wares to Australians.

Despite the fact that we have a Free Trade Agreement with the US, which is 1,400 pages long, it seems that our support for free trade, free markets and competition doesn't extend all the way to the earrings yet.

Of course it is not just US retailers that make clear how high the profit margins being charged by some of our big retailers are. A few more mouse clicks when perusing sites in the lead up to Christmas showed that while Borders was charging $39.95 for the Toy Story 3 DVD, JB Hi-Fi was selling it for just $18.98, a saving of more than 50 per cent. Similarly, smart shoppers could have saved nearly $100 on a bottle of Chanel No. 5 perfume if they avoided the big name Australian retailers.

It's ironic that the historical proponents of free trade and private enterprise are trying to both blame the government for their problems and ask the government to fix them.

The fact is, however, that while the 10 per cent GST explains a small part of the difference between domestic and international retail prices most of the price difference is explained by lower operating costs and lower profit margins.

Just as technological change has driven down the cost of computers, mobile phones and digital cameras so too will technological change drive down the cost of retail. Enormous shops paying enormous rents and holding enormous amounts of stock at locations spread all around the country are an expensive, inefficient, and for many people inconvenient way to sell appliances, books, music and clothes.

Music shops and photo development labs have been nearly virtually wiped out by technological change. Some large retailers will likely be next. The big difference between Harvey Norman and the former owners of your old local photo development lab is their relative wealth and power. While the photo development labs died quietly, expect the big retailers, and the owners of the big shopping centres who rely on the retailers' profits to justify the exorbitant rents, to kick, scream and blame the government for what real free trade and competition is doing to them.

The battle between consumers and retailers is now on and it will be fascinating to see which side the government takes. When it comes to the big banks the government is adamant that consumers need to shop around to get the best possible price. Indeed, the government is even trying to make it easier for people to switch between banks to increase the amount of competition.

The strategy of the big retailers is simple: make it tedious and slow to buy things online. While they know the 10 per cent GST is not their biggest problem, they also know that if the tax office introduces complex and time consuming compliance measures it will deter both foreign retailers and Australian buyers from seeking each other out.

So what then, should the government do?

There is no doubt that the rise in online shopping has the capacity to erode tax revenue, but in trying to stem the flow of revenue loss the government must ensure it does not simply create new trade barriers behind which Australian retailers can continue to charge much higher prices than overseas customers are expected to pay.

And if governments are worried about lost tax revenue they should start by scrapping the duty free tax concessions available on cigarettes and alcohol at Australian airports. It has never made any sense to use taxes to discourage drinking and smoking for everyone except frequent flyers. In fact, the current tax regime is full of anomalies like this. Tax Summit anyone?

Dr Richard Denniss is Executive Director of The Australia Institute, www.tai.org.au