

27 February 2015



The Treasury
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To whom it may concern,

New Zealand Productivity Commission: Next round of inquiries

Thank you for the opportunity to submit our suggested inquiry topics for the Productivity Commission to address. We welcome the Government's proactive engagement with the private sector and value the expert and independent analysis that the Productivity Commission brings.

Retail NZ is a trade association representing retailers in New Zealand. We have around 5,000 members who together account for around three-quarters of New Zealand's total retail sales revenue. Our members include both bricks and mortar stores and e-commerce retailers.

We have just one burning issue to put forward for consideration. It is the single most important issue to our members and has had the most damaging effect on local retail trade and town centre development in recent times: the de minimis threshold that allows the waiving of GST and duty where it is less than \$60 on imported goods.

In the age of internet retailing, where everyday purchases are made online, not in-store, the de minimis acts as a reverse tariff to goods bought from local shops and websites. International literature on the issue also suggests it provides a significant deterrent to offshore retailers contemplating a physical presence in New Zealand. A thriving retail sector is essential to the vibrancy of our towns and cities - boosting tourism, employment and quality of life. Important too is protecting the Government's tax base, we estimate that the total loss to New Zealand from GST not collected at the border to be at least \$200million. The downstream economic impacts, in terms of reduced economic activity, employment and business prospects are thought to be significant.

The Government has asserted the costs of simply removing the de minimis under our current system would outweigh the revenue foregone (although this simplistic argument overlooks the fact that the Government currently imposes Customs clearance charges on top of duty and GST on higher value items).

Therefore, the solution to this issue will likely require complex regulatory action. One potential solution could require credit card companies or banks to collect GST where it identifies the transaction has occurred outside the country of residence of the card holder. This option is unpopular with banks, and may also be possibly technically difficult to implement if banks cannot accurately tell where a transaction occurs. A more likely solution proposed by the OECD for cross border trade of services and intangibles, requires foreign companies selling products in New Zealand to register for GST and remit it directly to IRD. Both solutions shift GST collection from the border, which is the current large cost that Government argues outweighs the revenue lost.

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The Government's response to date is that the de minimis is an issue for the OECD to consider. While the OECD has set up work streams dealing with Base Erosion and Profit Sharing (BEPS) and the tax challenges of the digital economy, work on low value goods has not been progressed. New Zealand and Australia have particularly high de minimis thresholds in comparison to other OECD countries¹ therefore this is a more pressing issue for us than our counterparts. We believe the issue deserves urgent attention in a local context which the OECD is not able to provide.

The de minimis issue also poses a public perception challenge that an arms-length inquiry by the Productivity Commission would shed much needed light on. Clearly GST is not a new tax and its beauty has been its universal approach. Unlike most other jurisdictions our consumption tax system is simple to use and fair. However, GST is now very easy to avoid and New Zealanders are doing so in rapidly growing numbers and over time, this can only undermine New Zealand's economic growth.

I would be happy to meet with you to discuss our proposed inquiry topic, and please let me know if I can provide any more information in support of our proposal.

Yours sincerely



Greg Harford
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Retail NZ

¹ The de minimis in the UK it is £15 and Canada is C\$20, compared to A\$1000 in Australia and between NZ\$226 and NZ\$399 in New Zealand