

GST: Cross-border services, intangibles and goods
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To whom it may concern,

GST: CROSS-BORDER SERVICES, INTANGIBLES AND GOODS - GOVERNMENT DISCUSSION DOCUMENT

Retail NZ is a trade association representing the interests of retailers in New Zealand. We have around 5,000 members who together account for around two thirds of New Zealand's total retail sales revenue. Our membership comprises of both bricks and mortar stores and e-commerce retailers. Retailing has changed significantly with the shift online and our members have embraced the new opportunities it brings. However, outdated GST rules are unfairly holding New Zealand businesses back.

The current situation in New Zealand where GST and duty is not charged on cross-border services and intangibles, or goods that fall over the de minimis threshold of \$60, is out of line with most developed countries. It incentivises consumers to buy from foreign competitors and as a result is seriously impacting New Zealand businesses, towns and the wider economy. It is costing New Zealand jobs and contributing to the rise of zombie towns, especially in heartland New Zealand where small businesses are being driven out of business. It is also depriving the Crown of a significant amount of revenue every year.

The online GST loophole also threatens the integrity of New Zealand's GST system. Until the advent of internet commerce, consumption tax was paid on all goods and services consumed in New Zealand with very few exceptions. It was celebrated because of its broad-based and fair approach which made it simple for consumers to understand and for business to administer. While offshore suppliers and low-value goods remain excluded GST is not a universal tax and, in fact, acts as a reverse tariff on local suppliers.

Our association has been working for many years on behalf of our members to level the playing field for domestically based suppliers of goods. Retail NZ made a submission on the draft OECD VAT/GST guidelines in February and supported the proposed registration system for collecting consumption tax on cross-border trade on services and intangibles. It is positive to see some action in New Zealand toward resolving this long-standing and growing issue with the release of this discussion paper.

Low-value goods

In principle there should be no difference in the tax treatment between services and goods. We are pleased that the discussion document proposes new rules that would apply GST to services and intangibles bought from offshore suppliers. However, the issue of low-value goods must also be addressed urgently. We support offshore supplier registration for services and intangibles, but we strongly urge that it be extended to goods at the same time. We are encouraged to read in the discussion paper that the Government intends to align where possible the collection of GST on imported goods with services and intangibles. All purchases should be treated the same way for consumption tax purposes regardless of what they are or where they are bought.

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We were very pleased to learn that our neighbours in Australia recently committed to this approach and we strongly encourage the Government in New Zealand to do the same. It does not make sense to require large suppliers like Amazon to collect and pay New Zealand GST for supplying an intangible, such as an e-book, but not for a physical book. This would add to, rather than reduce, complexity for foreign suppliers. Removing the de minimis completely and registering for GST in New Zealand is the simplest solution for large suppliers. Goods bought from smaller suppliers that are not registered could still be imported, but they would be stopped at the border until the GST and duty is paid (as happens currently).

We do not support the proposal that New Zealand consumers voluntarily pay tax on purchases ahead of goods arriving in the country. Consumers will find it difficult to understand their tax obligations and it will create inconvenience and confusion. As the paper notes, it is also likely to result in very low compliance rates.

We look forward to the release on the discussion paper in October that will look specifically at the GST treatment of low-value imported goods.

Threshold for registration

There should not be a threshold under which suppliers are required to register and return GST in a 12-month period. Exceptions to the offshore supplier rule would create uncertainty and could reduce compliance. Imposing a threshold would add an administrative burden to the Government because it would be required to track the value of sales each supplier makes into New Zealand to ascertain whether a supplier is over or under the threshold in a 12 month-period. We agree that compliance costs for small and low-volume suppliers should be minimised and that registration should not act as a deterrent to offshore businesses trading in New Zealand, however this can be achieved through an efficient and simple to use registration system such as the proposed “pay only” registration system.

Preferred registration system

In our view the proposed “pay only” registration system would be the simplest for off-shore supplier to use. If they are not claiming back GST then a simplified system is appropriate. However, in order to begin collecting GST from offshore suppliers as soon as possible, and before a “pay-only” system is developed, we see no problem in requiring offshore firms to use the domestic registration system. While the level of compliance for all businesses should be minimised, it is important to note that New Zealand based businesses must use the domestic registration system. It doesn’t make sense to make compliance easier for non-resident businesses than New Zealand businesses. In principle, compliance requirements should be the same regardless of where the business is based.

Business-to-business supplies

The current system in New Zealand, where businesses pay GST on business-to-business transactions and claim it back against the GST returned to the government, works well. It does not make sense to exclude GST from business-to-business transactions with foreign suppliers. New Zealand business would still be required to complete a full GST return, which would likely be made more complicated because they would need to track which business related purchases attracted GST and which didn’t. It would also be more complicated for offshore suppliers because they would need to ascertain if the sale is to a New Zealand GST registered business when working out whether GST should be charged. A simple blanket rule where GST is charged on all transactions (regardless of the origin) and is claimed back by GST registered business, is the preferred solution.

Comment

There is an opportunity for New Zealand to lead the world and close the GST loophole for services, intangibles and goods using the offshore supplier registration model. We are encouraged to hear that the Government values New Zealand businesses and jobs over foreign suppliers and look forward to receiving the next discussion papers that will propose solutions for closing the GST loophole for goods.

Online shopping continues to grow, and so does the pressure on local retailers. It is essential that the Government takes action on the tax loophole for goods as soon as possible.

Yours sincerely,



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Retail NZ