



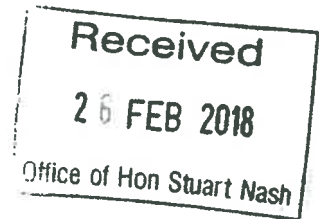
Tax Working Group

Hon Grant Robertson
Minister of Finance

Hon Stuart Nash
Minister of Revenue

Hon Meka Whaitiri
Minister of Customs

Parliament Buildings
Wellington



Dear Ministers

GST on low-value imported goods

I am writing to you to provide the Tax Working Group's (the Group's) recommendations for collecting Goods and Services Tax (GST) on low-value goods imported into New Zealand.

You previously wrote asking the Group to consider this issue. In your letter you noted that the Government is minded to proceed with this work, and would welcome early advice on the merits of reform options, ahead of the production of the Group's Interim Report in September.

The Group has now considered this issue and agrees that in principle GST should be collected on low-value imported goods. Collecting GST on low-value imported goods is consistent with New Zealand's broad-base low-rate GST framework. It is also consistent with New Zealand's destination principle, which provides that GST should apply to goods and services that are traded across borders when they are consumed in New Zealand.

As a result, there is no in-principle reason why GST should not be collected on imported goods consumed in New Zealand just as it is collected on domestically sold goods consumed in New Zealand. The current non-collection of GST results in a competitive disadvantage and unfairness for New Zealand retailers and results in an increasing amount of GST revenue foregone for the Government.

The non-collection of GST is an increasing problem which the Group considers should be addressed quickly. The key question is how to collect GST on low-value imported goods in the current environment in a low-cost and effective way.

The Group has considered three options:

- *Offshore supplier registration*: Offshore suppliers would be required to return GST on low-value goods supplied to New Zealand consumers if their total supplies to New Zealand exceed the GST registration threshold.
- *Between the point of sale and delivery*: Freight couriers and New Zealand Post would collect revenue on low-value imported goods they deliver.
- *Pay after delivery*: Consumers would pay the GST on low-value imported goods after they have been delivered to them.

In the short term, of these three options, the Group prefers the option of an offshore supplier registration system. The Group considers that this option would provide a cost-effective way of collecting GST that would also provide price certainty and low compliance costs for consumers. The Group considers that currently there are practical concerns with options to collect between the point of sale and delivery and after delivery that mean they may not be feasible in the short term.

The two concerns with an offshore supplier registration system are potential non-compliance with the rules by offshore suppliers and the potential for not returning the revenue collected. Officials have advised us of the recent success of the application of this model for cross-border services and intangibles and so this provides an encouraging sign in this regard.

For this option to be successful, the Group considers that further consultation on the detail and implementation of an offshore-supplier registration model is essential. Further consultation is needed to ensure that this model is effective.

The Group has concerns that an offshore supplier registration model would mean that GST would continue to not be collected on imported low-value goods provided by unregistered sellers. For this reason the Group would not support an increase in the threshold for collection of GST by Customs which is generally \$400.

We note that the \$400 threshold is equivalent to the current *de minimis* for goods that are not subject to tariffs. However, for goods that are subject to tariffs the \$400 threshold would be a rise in the *de minimis* of up to \$174. Officials have advised that setting the *de minimis* based on the value of the good is necessary to minimise compliance and administration costs for an offshore supplier registration system.

On the basis of this advice the Group accepts that the small rise in the threshold for goods sold by unregistered suppliers is broadly acceptable given the plan for offshore supplier registration is to include marketplaces and parcel forwarders. This will narrow the scale of non-registration.

Officials have advised that the impact of raising the *de minimis* will result in a small reduction in tariff revenue and Ministry for Primary Industries and Customs

funding for border and biosecurity risk management. However, in their view the benefits of having a simpler threshold through reduced compliance and administration costs will outweigh the costs.

In addition, the Group recommends that the Government continue to review the options to collect GST between the point of sale and delivery and after delivery following implementation of an offshore supplier registration model. This continued review should consider whether the feasibility issues with these options can be overcome as technology and data sharing improvements occur.

As a result the Group recommends the following:

- a) The Government should implement an offshore supplier registration model to collect GST on imported goods from suppliers who exceed the GST registration threshold.
- b) The *de minimis* for collection of GST by Customs should be changed to a \$400 threshold based on the good's value but should not be increased beyond that point.
- c) The Government should consult on the proposed offshore supplier registration model to ensure it is effective.
- d) Options for collecting GST between the point of sale and delivery and for payment of GST after delivery should continue to be reviewed to see if the practical issues with them can be overcome and become an effective means of collecting GST on low-value goods, in particular from unregistered suppliers.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Michael Cullen', written in a cursive style.

Hon Sir Michael Cullen
Chair of the Tax Working Group