

Discussion document Q&As – *GST: Cross-border services, intangibles and goods*

What is the discussion document about?

The document is about the current problem of GST not being collected on cross-border services (including internet downloads and other online services) and imported goods that are below the “de minimis” threshold (typically goods below the value of NZ\$400).

The discussion document seeks submissions on proposed rules that would require offshore suppliers of services to return GST on services purchased by New Zealand-resident consumers. This approach is advocated by the OECD and has been adopted in countries of the European Union. It has also recently been proposed in Australia.

The document also discusses the collection of GST on low-value imported goods and seeks submissions on this issue.

Customs is undertaking some work in this area and is assessing ways to lower the cost of collecting GST on imported goods. Customs will report back to the Government on this work by October this year. Following this report, it is also anticipated that a consultation paper, specifically focusing on the GST treatment of low-value imported goods, will be released and further submissions will be encouraged as part of that process.

Submissions on this discussion document close on 25 September 2015.

Why doesn't the Government currently tax imported goods and services?

When GST was introduced in 1986, few New Zealand consumers purchased services from offshore, and online digital products were not yet available. At that time, the compliance and administrative costs involved in taxing cross-border services potentially outweighed the benefits of taxation.

In terms of imported goods, New Zealand and other countries apply “de minimis” thresholds below which no duty, including GST, is collected on the imported goods. De minimis thresholds are applied to facilitate the flow of goods and to ensure that the cost of collecting GST on low-value goods does not outweigh the benefits of doing so.

New Zealand's de minimis is set at a level under which it is estimated that the costs of collecting the duty begin to exceed the revenue the duty generates. It is a higher threshold than that set by many countries but lower than the Australian threshold of AU\$1,000.

Why is the Government seeking to tax goods and services purchased from offshore suppliers?

The principal issue is about fairness. Domestic suppliers return GST on goods and services they sell to New Zealand customers whereas offshore suppliers are not required to return GST. This puts domestic retailers at a competitive disadvantage compared with offshore suppliers.

The growing e-commerce market also means the amount of GST not being collected on imported goods and services is increasing. Current estimates put the amount of GST foregone on these purchases at approximately \$180 million a year (of which about \$40 million relates to services and intangibles), and growing at around 10 percent each year. Government revenues pay for important public services such as education, healthcare, roads and superannuation.

What are the main features of the proposals?

- Offshore suppliers of services would be required to register and return GST on services purchased by New Zealand-resident consumers.
- Offshore suppliers would be required to register and return GST if their supplies of services to New Zealand residents exceed a given threshold in a 12-month period. Submissions are sought on what the level of that threshold should be.
- A wide definition of “services” is proposed, which includes both digital services (such as video, music and software downloads) and more traditional services (such as legal and accounting services received remotely).
- In some situations, an electronic marketplace or intermediary may be required to register instead of the principal offshore supplier.
- Submissions are sought on whether offshore suppliers should be required to return GST when they supply services remotely to New Zealand GST-registered businesses and whether these services should count towards the registration threshold.

Why would offshore suppliers comply with the proposed rules?

When similar rules have been applied in other countries, offshore suppliers – particularly large international suppliers that account for the majority of cross-border services and intangibles – have demonstrated a willingness to comply.

To generate a similar level of compliance for New Zealand, the proposed rules would be consistent with the rules that apply in other countries. For offshore suppliers that do not

comply, the normal enforcement rules and penalties that apply to New Zealand suppliers are expected to apply.

The OECD, which is producing internationally agreed guidelines on GST and cross-border services and intangibles, also envisages countries cooperating and sharing information to ensure that suppliers comply with registration requirements in different jurisdictions.

How do the proposals compare with what other countries are doing?

The proposals are similar to the rule that have been operating in Europe since 2003, as well as rules recently announced in Australia that are due to be enacted on 1 July 2017. The proposed rules also closely follow the draft OECD guidelines that are due to be finalised later this year.

What is the Government doing about the non-collection of GST on imported goods?

The Government is considering a range of options that may allow better collection of GST on low-value imported goods. People are invited to include any concerns about this issue in their submission on the current discussion document.

Officials will report to Ministers by October this year. It is anticipated that a consultation paper on the GST treatment of low-value imported goods will follow that report and further submissions will be able to be made as part of that process.

Why isn't the Government proposing to require offshore suppliers of goods to return the GST?

It is currently the Government's intention to align, where possible, the collection of GST on imported goods with the proposals in the paper relating to the collection of cross-border services and intangibles.

However, no other country has adopted such a system and, therefore, the success of its application to goods is currently uncertain.

Further work is required to determine the viability of options and whether they would in fact lower costs of collection.

It is likely that a combination of approaches would be required.