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Special report from the
Policy Advice Division of Inland Revenue

GST treatment of tokens, stamps and vouchers – amendments to sections 5(11D) to 5(11I) of the Goods and Services Tax Act 1985

The Taxation (Beneficiary Income of Minors, Services-Related Payments and Remedial Matters) Act 2001 contains amendments that affect sections 5(11D) to 5(11I) of the Goods and Services Tax Act 1985 (the GST Act). The sections apply to transactions involving the supply of tokens, stamps or vouchers.

The amendments:

- Remove the potential for transactions involving the supply of tokens, stamps or vouchers to be taxed twice.

- Clarify that "redemption" does not include redemption of a token, stamp or voucher for money.

- Extend the "not practical" requirement to situations where the issuer of a token, stamp or voucher and the supplier of the goods and services are the same person.

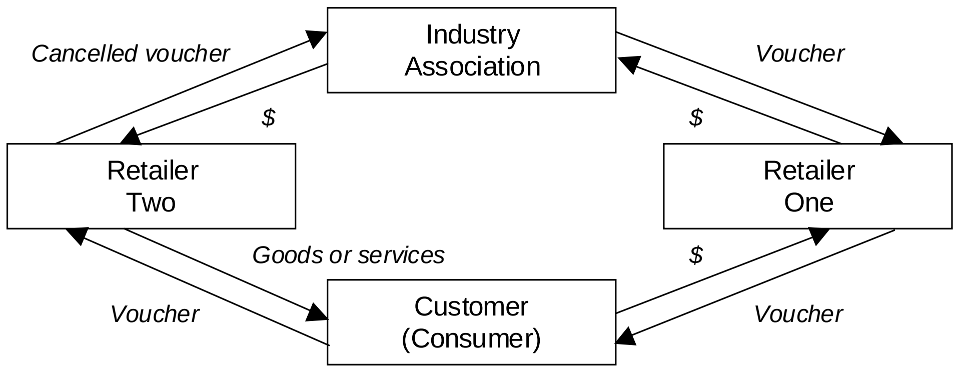
The amendments apply from 10 October 2000.

Reasons for change

Sections 5(11D) to 5(11I), enacted in the Taxation (GST and Miscellaneous Provisions) Act 2000, replaced sections 10(16) to 10(17A) in relation to supplies of tokens, stamps and vouchers. Before the rules were introduced a supply in relation to a token, stamp or voucher was generally recognised, if there was no face value at the time of issue, or, if there was a face value at the time of redemption. Under the new rules the supply of a token, stamp or voucher (regardless of whether it has a face value or not) is recognised at the time the token, stamp or voucher is issued. In relation to tokens, stamps or vouchers with a face value, where it is not practical to recognise the supply on issue GST, may be recognised when the token, stamp or voucher is redeemed for goods and services. The changes removed difficulties with the GST treatment of progressively redeemed tokens, stamps or vouchers and aligned the treatment of tokens, stamps or vouchers with the GST time of supply rules.

The main difficulty with the new rules was in relation to multi-party arrangements, as illustrated below:

A multi-party arrangement involving the supply of vouchers



In this illustration, the Industry Association issues a stock of vouchers, with a face value, for consideration to a participating retailer – Retailer One. Retailer One records the purchase of the voucher stock in their accounts. A customer purchases one of the vouchers from Retailer One and some time later presents the voucher as consideration at participating Retailer Two. Retailer Two accepts the voucher as consideration for goods and services and in the process cancels it. Retailer Two seeks reimbursement from the Industry Association in respect of the cancelled voucher.

In accounting for GST, the Industry Association and the participating retailers agreed that GST should be accounted for when the voucher was redeemed rather than when it was issued.

The difficulties with the application of the new rules were:

- *The potential for double taxation to occur:* Although the rules were designed to ensure that GST was only payable once, the wording of the new rules arguably created the possibility, where GST is recognised at the time of redemption, that GST could be triggered on any subsequent transaction after a token, stamp or voucher was issued. Therefore the sale between Retailer One and the customer could arguably be subject to GST.

- *The meaning of the word "redemption":* There was also an argument that when participating Retailer Two seeks reimbursement from the Industry Association another imposition of GST could be triggered as the word "redemption" was not limited to the redemption of the voucher for goods and services.

- *"Not practical":* Another problem was that the "not practical" requirement for adopting the redemption basis did not extend to an issuer of tokens, stamps or vouchers who was also the supplier of the goods and services for which the tokens, stamps or vouchers were redeemed.

How the latest amendments work

Issue or sale

One of the purposes of the amendments was to align the GST treatment of transactions involving the supply of tokens, stamps or vouchers with the general time of supply rule, being the earlier of invoice or payment. Therefore the general rule that is applicable to the supply of a token, stamp or voucher is that GST is recognised when the token, stamp or voucher is issued. The amendments confirm in relation to the general rule that GST should be recognised only when a token, stamp or voucher is issued or sold to a final consumer. The legislation achieves this by excluding from the term "supply" the issue or sale of a token, stamp or voucher to a person who will subsequently issue or sell that token, stamp or voucher.

Redemption

It has been clarified that redemption of a token, stamp or voucher for money does not give rise to further GST consequences. It has also been clarified that it is the bearer of the voucher who redeems the voucher rather than the supplier of the goods and services.

"Not practical"

In order to recognise GST on redemption of a token, stamp or voucher with a face value the supplier must establish that it is not practical to return GST when the token, stamp or voucher is issued. This exception to the general rule was included to reduce compliance costs. With regard to the interpretation of the words "not practical" in some cases it was considered that the legislation could unjustifiably require taxpayers to change longstanding arrangements and account for GST when a token, stamp or voucher is issued.

The amendment clarifies that when the issuer of a token, stamp or voucher and the person supplying the goods or services in exchange for the voucher are not the same person, they may elect to recognise GST at the time of redemption rather than issue. The application of the amendment still requires that there be an agreement between the taxpayers to this effect but now, in the alternative, requires that they are party to such an agreement.

The amendment also allows the redemption basis when the issuer and the supplier are the same person, provided it is impractical for the taxpayer to account for GST when the token, stamp or voucher is issued.

The following situations are examples of where the "not practical" requirement is likely to have been met:

- *The supplier of the voucher and supplier of the goods and services are different persons and are parties to an agreement:* A member of a franchise chain of foods stores sells a gift voucher to a customer. The voucher is redeemable at any of the franchise stores throughout New Zealand. Neither the customer nor the store selling the voucher has control over where the voucher is redeemed. The franchise stores are all party to an agreement to use the redemption method.

- *The supplier of the voucher and the supplier of the goods and services are branches of the same company:* A department store sells a gift certificate to a customer. At the time of sale the department store cannot tell whether the voucher will be redeemed at its store or a related branch. The store and its affiliated branch are legally the same person but have separate accounting systems.

- *The supplier of the voucher is the same person as the supplier of the goods and services but the vouchers are regularly used as part payment for goods and services:* A fashion retailer sells gift vouchers to customers. The vouchers can only be redeemed with that particular fashion retailer as it is the only store of its kind. The vouchers are regularly used in conjunction with cash to purchase clothing of a greater value than the face value of the voucher.

Variations of these examples may also meet the requirements where it is "not practical" to recognise GST at the time when a token, stamp or voucher is issued.

Nil consideration

Some tokens, stamps or vouchers such as those that received in the mail will allow consumers to receive goods and services to a specified value. These vouchers have been excluded from the scope of sections 5(11D) to 5(11I). If a token, stamp or voucher is issued for no consideration, no GST consequences will arise on the issue of that token, stamp or voucher. When the token, stamp or voucher is redeemed the general GST provisions will apply.