PUB-031

BusinessNZ
GROWING PROSPERITY AND POTENTIAL

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GST on low – value imported goods
C/- Deputy Commissioner Policy and Strategy
Inland Revenue Department
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Dear Sir/Madam

Re: GST on Low-value imported goods: An offshore supplier registration system

Background
I am writing in regard to the discussion document released by the Inland Revenue Department (IRD) entitled *"GST on low-value imported good: an offshore supplier registration system"* ('the discussion document').

BusinessNZ took the opportunity to submit on this issue in 2015 via the *GST: Cross-Border Services, Intangibles and Goods* discussion document. There we outlined our views on a range of issues relating to the collection of GST on imported goods and services, including our conclusion that any changes should remain in line with New Zealand's overall GST system, at present one of the cleanest in the world.

BusinessNZ's principled approach
In principle, BusinessNZ supports the Government in charging GST on imported goods, as well as on digital products and other services. As with GST on goods and services domestically, GST on offshore purchases should be broad and consistent. However, we have always been conscious of the need to distinguish between such a requirement and the situation where the practical and compliance implications for those who collect the tax outweigh the revenue collected.

Ultimately, what the Government should aim for is an enhanced GST system that best meets the needs of the three key interested parties, business, consumers and government. Any solution meeting the needs of only 1 or 2 of these groups will not provide a long-term policy answer and will inevitably lead to ongoing revisions that create further distortions and compliance issues.

BusinessNZ believes the various moving parts need to be balanced. There is a fine line between ensuring GST collected from offshore purchases meets general compliance requirements and minimises tax base erosion and ensuring the collection requirement does not, at the same time, create unintended consequences that effectively damage

New Zealand's economic base. One way to make certain these objectives are met is by avoiding extreme measures and instead taking a pragmatic and reasonable approach.

Getting offshore companies on board
Chasing the 'last dollar' will invariably lead to increased compliance and transaction costs, which could fall heavily on offshore suppliers exporting items to New Zealand. For some, the increased costs will simply mean New Zealand becomes a 'no-go zone', preventing both New Zealand consumers and businesses from purchasing items they want. And New Zealand businesses could experience reciprocal problems when looking to export their own goods if this country is perceived as one where transacting goods across borders is difficult.

We strongly agree it is important to create a level playing field to enable New Zealand businesses to compete with offshore suppliers. However, from a broader perspective we would not want the Government to think the review will provide a panacea for all competitiveness woes.

Acknowledging New Zealand's place in the world
In a global context, New Zealand is a very small market, whether measured using variables such as total GDP or the value of imports and exports. We are also a distant market and therefore have become a country whose efforts to reduce trade barriers have provided at least a comparative advantage over countries and regions with far larger economic clout but with trade barriers in place.

When looking to create a better balance between the obligations of domestic and offshore suppliers, the Government should not make GST policy changes that lead those suppliers to view New Zealand as somewhere to be avoided from a terms of trade point of view - possibly due to significant compliance procedures associated with the export of goods or services. Overly complicated and onerous GST measures might more negatively affect New Zealand, compared with similar arrangements offshore, simply, as a small market in the global economy, because of existing impediments.

Simplicity of capturing at source
In our 2015 submission, BusinessNZ favoured the option of identifying those enterprises which deal with the bulk of sales to New Zealand, requesting they collect GST on behalf of the New Zealand Government. We believed identifying the main players would be relatively easy and it would not take a sizeable number of enterprises to ensure the greatest amount of revenue was collected.

Therefore, we are pleased to see that of the three options considered in the current discussion document, the Government has decided to proceed with the 'at the point of sale' option, whereby suppliers would be required to register for, collect and return GST ("offshore supplier registration").

Overall, we believe the offshore supplier registration option is the best way forward, and should be introduced.

Primary Recommendation: In principle, the offshore supplier registration system should proceed.

But notwithstanding our primary recommendation that of the options considered, the offshore supplier registration system should proceed, we also wish to take the opportunity to outline a recent concern that has arisen across the Tasman. The Government needs to be cognisant of this problem when developing the GST policy further.

Mindful of learning from offshore experiences

In relation to the point raised above regarding getting offshore companies on board, paragraph 4.4 in the discussion document points out that "*For some suppliers, the compliance costs of registering and returning GST may outweigh the revenue collected in supplying low-value goods to New Zealand customers. As far as possible any new rules should be designed in a way that does not pose a barrier to trade with New Zealand as this could reduce market competition and consumer choice".* BusinessNZ agrees. In fact, we do not have to look far abroad to see the current state of play in Australia, given the country is going through its own major review of the GST issue.

BusinessNZ agrees the best way forward is to require offshore suppliers to register, collect and return GST on supplies of goods to New Zealand consumers where the value of the goods is $400 or less. However, recent developments in Australia show this change process as not perhaps as straightforward as first believed.

As paragraph 2.21 of the discussion document points out, the Australian Parliament has enacted similar legislation to that proposed for New Zealand, namely that offshore suppliers of goods register for GST in Australia and collect and return GST on goods supplied to Australian consumers valued at or below AU$1000. Suppliers must do this if the total supplied to Australia exceeds the AU$75,000 threshold for GST registration. The requirement comes into force on 1 July 2018.

However, in late May, Amazon announced that from 1 July it would block Australians from buying from its international e-commerce websites and restrict them to a smaller local platform. While other significant offshore suppliers such as Ebay and Alibaba have confirmed post the Amazon announcement that they would not be blocking Australian users, the fact that one of the largest suppliers of goods in the world has taken this step means there is nothing to stop other major suppliers following a similar path, especially if the challenge of implementing the tax is greater than the size of the market supplied. Given the New Zealand population is roughly 20 percent the size of Australia's, our pulling power as a market puts us in an even more delicate position.

At the very least, BusinessNZ believes there are two steps IRD needs to take before looking to implement an offshore supplier registration system. First, it needs to assess exactly where Australia sits in relation to the collecting and remitting of GST in terms of major international suppliers other than Amazon. We do not consider lack of agreement from a few offshore suppliers should prevent this new regime from proceeding. However, if some of the largest suppliers to the New Zealand market are blocking customers, then the trade-off between the three interested parties discussed above comes into play, as the benefit of revenue collection may be superseded by loss of consumer choice due to an adverse offshore business reaction.

Second, with regard to the above, we note, on page 5, that what is proposed would apply from 1 October 2019. Should there be continuing uncertainty over possible retaliatory measures from major offshore suppliers, BusinessNZ would recommend delaying the application date. Ensuring the most cost effective and optimal way of tackling the GST issue is one thing, but the cost of having a large part of the offshore goods pipeline blocked for New Zealanders might be too high a price to pay.

Recommendation: That the application date of 1 October 2019 is moved out if there are ongoing and persistent concerns over offshore suppliers blocking New Zealand buyers.

Private Sector Technical Assistance

Given the current issues in Australia and the potential to move application dates out to ensure a quality regulatory outcome, BusinessNZ is also mindful of the fact that the implementation of an offshore supplier registration system may be more problematic for certain businesses than initially considered. In particular, those facilitating the sale of goods between third-party buyers and sellers.

The Government needs to be mindful of what this system would mean for such companies that either wholly or partly provide a way in which to enable consumer-to-consumer and business-to-consumer sales through their website. We believe that to ensure an outcome that minimises compliance costs and recognises that one size does not fit all, the formation of a private sector technical working group to work through such issues should be considered. Only by having direct input from such private sector experts will IRD be able to ensure a system that not only works for all those affected, but also seeks to collect the correct amount of GST revenue.

Recommendation: That IRD look to establish a private sector technical working group for those businesses who facilitate the sale of goods between third-party buyers and sellers.

Thank you for the opportunity to comment.

Kind regards

s9(2)(a) [redacted]

s9(2)(a) [redacted]
Economist
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