



3 July 2018

Submission GST on low-value imported goods
C/- Deputy Commissioner Policy and Strategy
Inland Revenue Department
PO Box 2198
Wellington 6140

Submitter Details:-

This submission is from the Board of Directors of the Conference of Asia Pacific Express Carriers (CAPEC New Zealand).

CAPEC New Zealand can be contacted via the New Zealand secretariat:

Sherelle Marie Kennelly

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CAPEC New Zealand wishes that the following also appear in support of this submission.

The New Zealand Board Members represented by and for:-

Dianella Ngakuru, Country Manager – Federal Express (Chairman)
Karina Horne, Country Manager – United Parcel Service
Ruud Smeets, General Manager Business Services - TNT Express Worldwide
Mark Foy, Country Manager – DHL Express Worldwide

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CAPEC represents New Zealand's four major express carriers - DHL Express, TNT, Federal Express, UPS.

Background

The Conference of Asia Pacific Express Carriers Limited ("CAPEC New Zealand") is an industry association representing the interests of the world's leading integrated air express parcel delivery companies. Its members are DHL, FedEx, TNT and UPS.

CAPEC New Zealand Members provide daily services of time sensitive shipments to thousands of businesses of all sizes in all sectors of the New Zealand economy, as well as to the many individual consumers whose choices have been widened as a result the development of ecommerce. As a group of carriers we represent a large portion of the ECI pathway.

An efficient flow of goods is crucial to our local economy and for maintaining and growing New Zealand's international competitiveness.

CAPEC New Zealand is not belligerently opposed to changes in lowering the threshold for duties and taxes.

CAPEC New Zealand has consistently held the view that any changes to the collection of taxes for low value goods should be underpinned by the following Guiding Principles:

- Effective and efficient collection of revenue;
- Competitive neutrality (between air cargo and post);
- Consistent application of border clearance and taxation arrangements;
- Recognition of CAPEC New Zealand's unique and essential role as a provider of time definite delivery services.
- Ongoing and meaningful consultation with Government

Executive Summary

CAPEC New Zealand has reviewed the GST on low-value imported goods – an offshore supplier registration system publication by the Inland Revenue, along with the Explanatory Material and Q&A, released in June 2018.

It should be noted that New Zealand Customs and the New Zealand Government has engaged closely with CAPEC New Zealand Members as part of the consultation process for the last 3 years.

This engagement has proven to be invaluable in terms of clarifying policy intent and reviewing the practicality of various processes and procedures. CAPEC New Zealand greatly appreciates being consulted on such important policy reform.

CAPEC New Zealand believes that the only equitable, timely and cost effective methodology to collect GST from Low Value Goods is through collecting the GST for goods valued at under \$400 directly at point of sale at origin.

This methodology can be implemented without the need to delay the movement of goods through the Border and will assist in Facilitation of Trade.

We understand the position taken by Government on the current inequities of GST collection between low value on shore and off shore purchases.

We also believe that the consumer should be able to access the benefits of a truly global market place.

With this in mind we firmly hold the position that the collection of tax must be done in a way that the cost of collection does not outweigh the amount collected and done with minimal disruption. Furthermore the consumer should not have to take on additional collection costs over and above that of the tax itself.

Based on the above CAPEC New Zealand strongly supports the offshore collection of GST and endorses the model and approach that Australia has taken.

CAPEC New Zealand would like representation and consultation in relation to any potential changes to the LVG threshold and any changes to the current collection at the border for tax & duty.

Notwithstanding this stakeholder engagement, there remain several key areas of focus for CAPEC New Zealand Members have concerns with the offshore collection model.

These can be summarized as follows:-

- Double Taxation
- Valuation
- Issue of Combined Entries
- Refund of Undue Payments
- Reconciliation
- Vendor Compliance/Enforcement
- Currency (Exchange rate)

Double Taxation

CAPEC New Zealand believes that double taxation will be common if duties are calculated at invoice item/line level and strongly suggests taxation at a total invoice level per transaction.

CAPEC New Zealand is concerned that consignments valued above \$400 containing multiple goods, some or all of which are valued at or below \$400, will have a common occurrence of double taxation.

When the goods valued above \$400 enter New Zealand, they will undergo a formal customs clearance and will be subject to import transaction fee, duties and GST.

CAPEC New Zealand supports the reasonable belief test for vendors to apply. This allows the vendor to not collect GST on a low-value imported good if they have a reasonable belief that the good will be sent in a consignment valued above the low-value threshold.

Valuation

CAPEC NEW ZEALAND believes the Customs value of the goods should be based on CIF by the vendor. This is because GST is currently collected by NZ Customs for goods over \$400 based on CIF.

If the vendor collected GST where the valuation of the goods is based on the Customs value, the occurrence of double taxation will be more likely(see below)

Example of Double Taxation:

Customs Value based on Cost of Goods (NZD)

IPAD Cost	380
Total GST Charged by Vendor:	57

(If the vendor only charges GST on the value of goods and doesn't include the freight component when it reaches New Zealand, the freight component will push it over threshold).

When the Goods enter NZ they will undergo a customs entry and the below charges will apply:

Total GST Charged by NZC	63.00
<u>Import Transaction Fee</u>	<u>52.67</u>
Total Charges	115.67

Therefore it is important that the mechanism to collect GST is based on CIF when collecting GST using the vendor collect model. This will therefore match the way GST is assessed at the border for goods over \$400.

Issue of Combined Entries

New Zealand Customs currently combine entries for multiple shipments for same importer but different suppliers.

Example: Consumer buys a shirt from Vendor A worth NZ\$300 and shoes from Vendor B worth NZ\$200. Because the value is worth less than \$400 for both Vendor A and B, the offshore vendors charge GST at the point of sale.

New Zealand Customs requires the shipments to undergo combined entry when they enter New Zealand. These goods will then be subject to duties, GST and entry charges. Therefore double taxation will occur.

CAPEC New Zealand believes that all entries into New Zealand for goods under current threshold should be exempt from combined entries if they are from different suppliers.

This will reduce the amount of potential double taxation.

Refund of Undue Payments

When both New Zealand Customs and the Vendor have charged GST a process will be needed to relieve the double taxation by refunding the consumer for the extra revenue they have paid.

There are three main ways in which this could occur:-

- Customs could refund the GST they have collected without the need to cancel and or adjust the original entry.
- The vendor could refund the GST they have collected.
- The consumer could request a refund of GST through an IRD refund claim process similar to how businesses currently claim GST refunds.

Carriers and New Zealand Customs do not have the resources to handle the additional work associated with entry adjustments and refunds where GST has been collected by the vendor and at the border.

Preferred option would be the consumer would approach the vendor for a refund.

Reconciliation

What mechanisms will be in place for reconciliation of paid consignments?

Vendor Compliance / Enforcement

CAPEC New Zealand strongly suggests that any non compliance/enforcement will not be the responsibility of the Members.

Currency (Exchange Rate)

The Customs value, or the value for duty of imported goods, is used to calculate the Customs duty.

When the invoiced amount is not in New Zealand dollars, it will be converted at the rate in force on the day your entry is presented to us. Exchange rates used by us are set for a two-week period, and are published 11 days in advance.

These rates may differ slightly from the currency rates published by overseas trading banks.

The Members strongly recommend review for consistency.

Summary

The vendor collect model is acknowledged by CAPEC New Zealand's the best approach and commends Inland Revenue's decision to avoid the receiver collect model.

Our belief is that the Inland Revenue wants to gain maximum clarity on the effectiveness of the vendor collect model without adding increased cost and regulatory burden to the express industry.

We believe that the model proposed, whilst avoiding tax collection at the border, creates a new set of challenges which need to be considered during the process design.

We encourage Inland Revenue to review the proposed design for collecting GST offshore and ensure that is effective and efficient for the express industry, provides meaningful data to the regulators and improves the GST revenue for the Crown.

CAPEC New Zealand looks forward to receiving a response from Inland Revenue for consideration prior to the Draft proceeding to Parliament. Further industry consultation is critical in ensuring this policy reform leads to a more efficient and effective process.

In this regard, CAPEC New Zealand Members would again extend an invitation to Inland Revenue officials to visit our facilities to gain a better understanding of the international air express environment and we would like to be involved in any workshops/working groups when it comes to industry input and feedback for the design of the proposed offshore GST collection model.

Yours sincerely



Dianella Ngakuru, Country Manager – Federal Express (Chairman)

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