



Inland Revenue
Te Tari Taake

FACT SHEET: GST AND TELECOMMUNICATIONS SERVICES

The Government has announced proposed changes to the GST treatment of telecommunications services intended to apply from 1 October 2020. This fact sheet provides a summary of the proposals.

Aligning GST treatment

The GST treatment of most telecommunications services would be aligned with the treatment of other remote services and determined based on the residency of the consumer. This would be achieved by repealing most of the existing special rules for telecommunications services in the Goods and Services Tax Act 1985.

It is expected that for most telecommunications services the proposals would not change their GST treatment. However, this proposal would change the GST treatment of mobile roaming services so that:

- Outbound mobile roaming services provided to New Zealand residents overseas would be subject to GST at the standard rate of 15%; and
- Inbound mobile roaming services provided to non-residents in New Zealand would no longer be technically subject to GST.

Specific location

If the recipient needs to be at a specific location to receive certain telecommunications services, such as making a call from a phone booth, the GST treatment of those services would be determined by the physical location of the recipient rather than their residency.

Why change?

New Zealand's current rules for applying GST to telecommunication services are out of date and inconsistent with international best practice as outlined by the OECD's VAT/GST guidelines.

Under the OECD's best practice guidelines, a consumer's usual place of residence is used to determine which country has the right to tax the consumption of remote services. This means a remote service should generally be subject to New Zealand GST when it is supplied to a New Zealand-resident consumer.

The OECD guidelines define remote services as services where it is not necessary for the supplier and the consumer to be in the same place (for example, a digital download). The OECD's definition of remote services is broad and includes telecommunication services. Therefore, under these guidelines supplies of telecommunications services should be subject to GST when it is consumed by a New Zealand resident, regardless of the consumer's location.

New Zealand has already adopted rules consistent with the guidelines for most remote services, but our current rules for telecommunications services are inconsistent with international best practice.

What do the changes mean in practice?

Consumers

Whether GST applies to supplies of telecommunications services would no longer be determined by the location of the person (usually the consumer) who initiates that supply from a telecommunications supplier, but instead by the residency of the customer.

Most customers will see no change to the GST treatment of telecommunications services they use. However, one of the main effects of this proposal would be that outbound roaming services used by New Zealand residents overseas would be subject to 15 per cent GST. Conversely, inbound roaming services used by non-residents would not be subject to GST.¹

Example

Nell, a New Zealand resident, uses roaming services on her New Zealand mobile phone while she is on holiday in Brussels. The roaming services allows Nell to use her mobile phone as if she was in New Zealand, to make and receive calls, voicemails, text messages and use the internet while she is overseas.

The proposed changes mean that roaming services supplied to Nell by her New Zealand telecommunications provider would be subject to GST.

Telecommunications service providers

From 1 October 2020, telecommunications service providers will need to start charging GST on roaming services supplied to New Zealand-resident consumers. We are consulting on the technical details of the proposed changes to make sure the changes are as easy to comply with as possible and are workable in practice.

Making a submission

To make a submission, please email policy.webmaster@ird.govt.nz with "GST on telecommunications services" in the subject line.

Alternatively, send your submission to:

GST on telecommunications services
C/- Deputy Commissioner, Policy and Strategy
Inland Revenue Department
PO Box 2198
Wellington 6140

The closing date for submissions is 28 June 2019.

Questions and answers

¹ It is unlikely New Zealand GST is currently charged on inbound roaming services. Under current rules, a special GST-registration rule for non-resident telecommunications suppliers means that they are not required to register if their only supplies in New Zealand are inbound roaming services.

Why should roaming services be subject to GST when I have to be outside New Zealand to receive them?

Under the best practice guidelines developed by the OECD, roaming services should be subject to GST or VAT in the consumer's usual place of residency, regardless of the consumer's location. International consistency with these guidelines minimises the incidence of roaming services being subject to either double-taxation or double non-taxation.

Furthermore, roaming allows a New Zealand resident to access a New Zealand mobile network whilst overseas and therefore it is appropriate that New Zealand GST apply to these services.

What if I buy a local SIM card instead of using roaming services when I'm overseas?

It is common practice for tourists travelling overseas to purchase local SIM cards, use a local mobile phone or a portable mobile router (such as pocket wi-fi) of the country they are travelling instead of using roaming services on their New Zealand mobile phone.

A special rule is proposed so that the residency of the consumer using these mobile telecommunications services would be determined solely by the country code of the SIM card they are using to receive those services. This would mean that the mobile telecommunications services a tourist receives through using a local New Zealand SIM card would be subject to GST. Equally, the mobile telecommunications services a New Zealand resident receives through a foreign SIM card overseas would not be subject to GST.

Example

Kirsty is a New Zealand-resident on holiday in Egypt. Instead of using roaming services on her New Zealand mobile phone, she purchases an Egyptian SIM card at Cairo airport. The mobile telecommunications services she receives through her Egyptian SIM card will not be subject to New Zealand GST.

Steve, Dave and Cameron are Australian tourists on holiday in New Zealand. To avoid paying international roaming charges while in New Zealand, they purchase a pocket wi-fi device from the local supermarket. This device provides them with a private wi-fi signal and allows them all to connect to internet from their respective mobile devices. This mobile telecommunications services they receive through the pocket wi-fi will be subject to GST at 15 percent.

It can be argued that the consumer's physical location and not their residency is a more appropriate proxy for determining whether GST applies for these situations as, to receive the "non-roaming" mobile telecommunications services, the consumer using a local SIM card needs to be in the country associated with that SIM card. Further, in practice, it is likely to be difficult for telecommunications suppliers to charge the correct jurisdictions' GST or VAT when a tourist is using a local SIM or phone.

Will I be charged GST if I use a phone booth or go to an internet café overseas?

Where the recipient of a supply of telecommunications services is required to be in a specific location in New Zealand to receive the services - for example, making a call from a telephone booth or using a paid internet service at a hotel - it is proposed that

regardless of the residency of the recipient consumer, a supply of telecommunications services by a resident supplier would be subject to 15 per cent GST. Equally, a supply of telecommunications services would not be subject to GST if the supply requires the recipient to receive the services at a specific location outside New Zealand.

Examples

Chris, an Australian tourist on holiday in New Zealand, uses a telephone booth in Auckland to make a call. Chris is charged 15 per cent GST as he needs to be at the phone booth to receive the service.

Jo, a New Zealand resident on holiday in Australia, pays to use her hotel's wi-fi service. Despite being a New Zealand resident, the supply of wi-fi is not subject to New Zealand GST as Jo needs to be at the Australian hotel to receive the service.

Will there be any changes to the GST treatment of cross-border business-to-business supplies of telecommunications services?

No. Telecommunications services supplied by a non-resident to a GST-registered business are currently generally not subject to GST. Under the proposed approach, these services will continue to not be subject to GST unless the supplier chooses to zero-rate the supply in order to claim back any New Zealand GST incurred in making the supply.

Telecommunications services supplied by a resident to a non-resident supplier of telecommunications services are currently zero-rated and this treatment will be maintained.