

## **Tax Working Group Public Submissions Information Release**

### **Release Document**

**September 2018**

**[taxworkinggroup.govt.nz/key-documents](http://taxworkinggroup.govt.nz/key-documents)**

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;
- [2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Sir Michael Cullen and the Tax Working Group,

PO Box 3724  
Wellington 6140  
New Zealand

Via email: [submissions@taxworkinggroup.govt.nz](mailto:submissions@taxworkinggroup.govt.nz)

30 April 2018

### **Submission on the Future of Tax**

I appreciate the opportunity to make a Submission on the Future of Tax project. My submission relates to two sections of Chapter 2 of the Future of Tax project, entitled “Technological change and its impact on tax bases” and “Changing patterns of globalisation”. It focuses on the continuing growth of cross-border direct sales throughout the world that is eroding New Zealand tax base.

Modern communication technologies have facilitated the growth in cross-border direct sales of goods and services. These sales practices affect the trade balance of many countries, as well as the amount of revenue these countries can raise from taxation of economic actors involved in these sales on both the supply and demand sides.

Income from an economic activity, such as sales, is traditionally taxed on the supply side of the activity and on the basis of physical presence to provide a tax nexus between the activity’s supply side and the taxing jurisdiction. As a result, if goods or services are sold directly to customers from abroad, the country where the customers of these goods and services are located is often seen as having no right to tax the income that the foreign supplier derives from these cross-border direct sales.

A revision of the entire approach to taxation of cross-border direct sales is not on the international political agenda. However, more and more countries agree that new rules are required, at least, for the taxation of suppliers of some digital services, in particular Internet advertising and digital intermediation services, when these involve direct cross-border sales.

It is difficult to develop any new rules to tax these suppliers within the current international income taxation system, because such development would require the renegotiation of thousands of double tax treaties. A new tax, therefore, appears to be the most practical option, at least in the short- to medium-term. I explain this argument more fully in my article accepted for publication in the New Zealand Business Law Quarterly. A copy of this draft article is attached to this submission.

I completed a PhD on the tax challenges of digitalisation at the University of Auckland in 2017 and teach taxation courses to undergraduate and postgraduate students at Massey University.

Sincerely

[1]

 Victoria Plekhanova