KPMG

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Regular commentary from our experts on topical tax issues

Issue 1

GST on imported services and low-value goods

Snapshot

The Government today released proposals to collect GST on imported services and digital content.

Collecting GST on low-value imported goods (i.e. value of $400 or less) is also being considered by NZ Customs. It will report to Government in October on potential options.

The issue is how to collect GST not whether GST should apply. This needs to be done without imposing prohibitive costs on both Government and taxpayers.

The easier issue is GST on imported services. The proposal here is to require offshore suppliers to register for GST. The issue is more complicated with low value goods as a solution needs to be found to reduce the costs of collection so that it is lower than the GST.

The proposals are not a surprise given the calls for GST neutrality between offshore and New Zealand businesses selling to local consumers. There is also the additional revenue forgone by Government which, in an increasingly digitally connected world, is no small matter. The OECD's proposals on taxing the digital economy and similar GST changes being proposed in Australia have also forced the Government to act.

The proposal to collect GST on imported services and digital content (e.g. music, movies and streaming) is consistent with global trends and best practice

GST on low-value goods is harder. It involves a judgement on costs of collection vs revenue. That said, the current $400 de minimis is well in excess of international norms and is likely to be reduced

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What are the proposed changes?

GST on imported services and digital content

- The proposal is to follow the OECD's proposed approach for taxing cross-border services and intangibles.
- GST would apply to "remote services", such as the online supply of software, digital content and other services where the consumer is a NZ tax resident. Services which are physically performed or provided offshore (e.g. overseas accommodation) will not be subject to GST.
- The discussion document asks for feedback on whether business-to-business supplies should be excluded from the new rules. A NZ GST registered business can claim the GST paid so there is little point in it being charged.
- Non-resident suppliers and electronic marketplaces would need to register for GST in New Zealand. An electronic marketplace is a person who charges the NZ customer, arranges delivery of the content, or sets the terms and conditions of the transaction. Payment providers (e.g. credit card companies) will not generally be required to GST register.
- Feedback is being sought on:
  - The rules for a supplier to identify whether a consumer is NZ tax resident. The preferred option is to use a proxy such as billing/home address or bank details.
  - Whether the registration threshold for non-residents should be the $60,000 threshold for NZ businesses or lower.
  - Using the existing domestic registration system or a simplified system to return only GST output tax.

GST on imported low-value goods

- The Government's intention is to align, if possible, the collection of GST on imported low-value goods with imported services and digital content.
- The current de minimis threshold (generally $400) for collecting GST on imported goods is being reviewed and Government has asked NZ Customs to report back by October on:
  - options to strengthen and streamline GST collection on imported low-value goods;
  - the future costs of collecting GST on low-value goods; and
  - options to change the level of the threshold and simplify it.
- If the goods de minimis is lowered, the discussion document suggests a combination of approaches to collecting GST would likely be required. The key issues to be resolved are:
  - how to track low-value goods in a way that allows NZ Customs, courier companies or NZ Post to be assured that the revenue has been collected, without a significant increase in administrative costs;
  - administrative changes that would be required for current Government information technology systems;
  - how information could be shared between Inland Revenue and NZ Customs, where GST on the goods is collected by GST registered suppliers; and
  - the willingness of offshore suppliers of low-value goods to collect the tax.

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Who should take note?

The proposals will impact on:

- *New Zealand businesses and consumers:* the cost of imported services and digital content will likely increase by 15 percent for un-registered purchasers. For consumers, the real question will be whether imposing GST will change the "customer experience". In particular, this may limit some offshore suppliers' willingness to supply content to NZ consumers.
- *Non-resident suppliers:* the cost of complying with NZ GST (registration, collection and payment) will need to be considered. This will require non-residents' systems to be able to identify NZ resident customers and to collect and pay GST to Inland Revenue. This may be easier for suppliers operating cross border where similar requirements apply in other jurisdictions (e.g. the European Union). For smaller suppliers, however, where costs of NZ GST compliance may be high, there may be a reluctance to supply to New Zealand.
- *Electronic marketplaces:* online marketplaces (such as app stores) will also need to gear up for the new requirements. This will include both electronic marketplaces hosted offshore and in New Zealand, that provide a platform for non-resident sellers to sell to NZ consumers. For NZ electronic marketplace websites, in particular, this may impose GST compliance obligations which do not exist at present.
- *Inland Revenue:* there will be impacts from GST registering non-resident businesses, collecting information and payments, and enforcement of the new rules.

The same issues will arise if the de minimis threshold for collection of GST on low-value goods is also reduced or removed.

The KPMG view

Change was inevitable...

The proposal to collect GST on imported services and digital content has been a long time coming. From a policy perspective, for a comprehensive GST system like New Zealand's, there is no reason to exclude imported services and goods from the base. The reason for not doing so has been the cost of collecting the GST. For digital services, at least, that trade-off appears now to favour collection.

The OECD's focus on the taxation of digital services as part of its work on base erosion and profit shifting has given the issue impetus. Similarly, the move by Australia earlier this year to tax offshore suppliers of services and digital content, which has also provided a model to consider. New Zealand is simply following the global trend.

…but how far will it go?

The million dollar question will be what change, if any, there will be to the low-value goods threshold? This issue has been under consideration for some time, since 2013, by both NZ Customs and Inland Revenue.

While the Government is non-committal in the discussion document, we believe there is a growing desire for the $400 threshold to be reduced.

Internationally, a much lower de minimis is the norm – e.g. GBP10 in the UK, CA$20 in Canada, EUR22 in most European Union countries. New Zealand and Australia (with its A$1,000 threshold) are significant outliners and there are strong indications that the Australian Government is considering a significant reduction in their goods de minimis.

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The key impediment to lowering the threshold has been the high costs of collection. Technological advancements should reduce collection cost concerns. The proliferation of online commerce means that it is no longer possible for Government to simply ignore these transactions. Both revenue (the cost is estimated at $180 million per annum and growing by around 10 percent annually) and tax integrity perspectives mean we believe it is a question of when, not if.

Devil in the detail

Like any tax proposal there are a number of moving parts which will require detailed consideration. In relation to imported services and digital content, the GST registration mechanism, place of supply rules, rules to determine whether a consumer is NZ resident and the treatment of business-to-business supplies are some of the detailed issues.

Reducing the goods de minimis is likely to require a coordinated approach. This may include a greater role for postal providers, better information sharing and possibly a combination of registering non-resident suppliers and a domestic reverse charge (where consumers pay the GST if non-resident suppliers do not). We await the results of Customs' review.

Next steps

Submissions are requested by 25 September, with Government proposing to legislate to collect GST on imported services and digital content in the next available tax bill. This is likely to be early next year.

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