PUB-024

TAKING RETAIL FURTHER //

Retail NZ

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GST on low-value imported goods
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GST ON LOW-VALUE IMPORTED GOODS: AN OFFSHORE SUPPLIER REGISTRATION SYSTEM

Introduction

1. Retail NZ is a not for profit membership organisation representing the interests of the retail sector. We have about 4,000 members, representing both physical stores and ecommerce retailers. Collectively our members account for about two-thirds of total retail turnover in New Zealand.

2. We have advocated for many years for Government to act and apply GST to low-value goods entering New Zealand and are strongly supportive of the Government's decision to do so, acting on advice from the Tax Working Group. The move will effectively level the playing field for domestic retailers which currently have a 15 per cent price disadvantage.

3. The proposed offshore supplier model is our preferred option for the collection of GST. It is a sensible and pragmatic solution, preferable to collection between the point of sale and delivery, or after delivery, as both would require entirely new systems to be devised. Collection at the point of sale for physical goods is the natural extension of the system that was implemented successfully for services and intangibles in 2016.

4. We are broadly supportive of the proposal as outlined in the discussion paper and our comments are summarised below:

Summary of major points and recommendations:

- Retail NZ is strongly supportive of the Government's decision to collect GST from offshore suppliers of low-value goods.
- We are strongly supportive of an offshore registration supplier model for collecting GST on low value goods, because it is simple, straightforward, and in line with the Australian approach.
- We are in favour of the earliest possible implementation date given the growth rate of online shopping.
- We support a threshold for supplier registration being $60,000 revenue in a 12-month period.
- We favour an approach that requires offshore suppliers to return GST on goods valued at or below $400, instead of the current *de minimis* of $60 of "duty". This flat threshold will vastly simplify understanding and compliance.
- In principle, we support the removal of tariffs and cost recovery charges for goods valued at or below $400, but we are concerned that New Zealand-domiciled retailers will still suffer a competitive disadvantage in relation to duties on items below the $400 threshold. This may need future review in the event that tariffs become more significant given current changes in international trade.
- We are strongly supportive of online marketplaces and "redeliverers" being included in the offshore supplier model.

5. For too long New Zealand based retailers have been at a competitive disadvantage compared with offshore suppliers because of inconsistent tax treatment. There are many reasons that consumers shop online, including convenience, product range and price. However, tax treatment should not be a factor, as the discussion paper correctly notes.

6. We are in favour of the earliest possible implementation date. In February, Marketview and BNZ's Online Sales Index showed that spending with offshore merchants was up 12 per cent on same month last year. Given the continuing growth of online shopping, and that the system is already working well for services and intangibles, the extension to physical goods should happen without delay.

7. As the discussion paper notes, it is difficult to estimate the total revenue foregone resulting from the non-collection of GST on low-value imported goods. This is because we don't have good data about the volume and value of goods under the *de minimis* crossing our border. Customs has estimated it at around $80 million in 2016 but our earlier estimates have suggested it could be much higher.

8. The experience of applying GST to services and intangibles has shown that the actual revenue collected is much more than initially estimated. When the system was proposed it was estimated that the Government was foregoing approximately $40 million a year in revenue. Total revenue from the GST returns filed by offshore suppliers for the first twelve months was $113 million.

9. Before the implementation of offshore registration for services and intangibles there was also concern about uptake and non-compliance. That has also proved not to be a major issue and over 200 merchants have registered to date.

10. Marketview and BNZ data shows that spending with offshore merchants was $1.3 billion in 2017 and 77 per cent ($1 billion) was with merchants that exceed $60,000 a year in New Zealand. Given the high proportion of spending this threshold will cover we support it being at this level.

11. We favour the proposed approach that requires offshore suppliers to return GST on goods valued at or below $400, instead of the current *de minimis* of $60 of "duty" - this removes to complication of determining the product type and the country of origin in order to correctly apply a tariff.

12. We support the removal of tariffs and cost recovery charges for goods valued at or below $400. This is a much easier threshold to understand and apply than the roving *de minimis* of $60 duty owing.

13. However, the collection of tariffs on those goods valued at more than $400 (and not on items worth less than $400) means that New Zealand domiciled businesses will continue to suffer a competitive disadvantage as a result of Government policy. We understand the practical constraints involved in collecting tariff on low value goods, and note that the previous Government had a long-term goal to remove tariffs from all imports. Tariffs are specifically designed as a protectionist measure to impede free trade. Overall, we support their removal, particularly on products where there is no longer any substantial New Zealand manufacturing base. We encourage the Government to continue seeking to reduce and eliminate tariffs on a multilateral basis. This is the ultimate solution to the problem created by tariff barriers. Until such time as this occurs, we recommend that the Government continue to look at sensible ways of collecting tariff on goods worth less than $400. In the event that current international trade disputes lead to an escalation of tariffs on inbound goods, we would expect the Government to prioritise solutions to this.

14. We are strongly supportive of online marketplaces and "redeliverers" being included in the offshore supplier model, if they are excluded there is a real risk that this will provide another loophole that allows GST to be avoided by offshore suppliers. We note that placing an obligation on electronic marketplaces like TradeMe and Ebay will widen the revenue collection net to include many purchases made from smaller suppliers, thus helping level the playing field. Additionally, when consumers shop via a marketplace, they tend to look at a particular platform for the transaction, rather than individual supplier. That is to say, a consumer typically looks to buy a product on Ebay or Amazon, rather than searching a marketplace for a particular supplier.

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15. We support the detailed proposals for registration and returns. Extending the existing GST registration system is a straightforward approach. New Zealand's existing GST registration system is already working well for foreign suppliers of digital services, and we see no reason why it won't also be effective for low value goods.

16. In the longer-term, we also support exploring joint-registration systems with other countries, and potentially a single harmonised GST system. The more that Australia and New Zealand can simplify and streamline border requirements, the better it will be for both businesses and consumers.

17. All of our submission may be released if required under the Official Information Act. We are happy to be contacted to discuss our submission.

Yours sincerely

Scott Fisher
CEO