

Booksellers^{NZ}

21 June, 2018

GST ON LOW VALUE IMPORTED GOODS: AN OFFSHORE SUPPLIER REGISTRATION SYSTEM

SUBMISSION ON NZ GOVERNMENT DISCUSSION DOCUMENT BY BOOKSELLERS NZ INC.

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Introduction

Booksellers New Zealand Incorporated (BSNZ) is a not for profit membership organisation representing the interests of some 300 booksellers in almost every community in New Zealand. A summary of our main points are listed in the box below.

Summary of major points and recommendations:

- BSNZ is strongly supportive of the Government's decision to collect GST from offshore suppliers of low-value goods.
- We are 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.
- We are strongly supportive of online marketplaces and "re-deliverers" being included in the offshore supplier model.

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1. Since 2009 we have been researching the effects on the competitive position of our members as a result of the loophole in the application of the existing Goods and Services Tax Act 1985. This has allowed New Zealand consumers to avoid paying GST on consumption of low value goods purchased from offshore online retailers. We have been advocating strongly that this has placed New Zealand bookshops and other small retailers in an unfair competitive position
 2. The New Zealand Government's GST legislation was designed to be universally applied and the small exceptions to this, including the original granting to NZ Customs of an exemption on collecting GST on goods below \$400, saw the universality largely enforced.
 4. However, the purchasing of low value goods from offshore online retailers has grown hugely in recent years and has grossly exposed the 1985 exemption when there was very little online retailing, if any.
 3. The introduction of new legislation establishing an offshore supplier model that will require offshore online retailers, and related marketplaces, to collect GST on sales into New Zealand will effectively level the playing field for domestic retailers which currently have a 15 per cent price disadvantage.
 4. The proposed offshore supplier model 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.
 5. 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.
 6. We are supportive of the proposal as outlined in the discussion paper and our comments are summarised below:
 7. For too long New Zealand based retailers, both in bricks and mortar stores and online, have been at a competitive disadvantage compared with offshore online suppliers because of the outdated application of the 1985 legislation providing a loophole for online offshore retailers. This affects the New Zealand bookshops and other retailers in many ways, stunting their growth, and reduction in employment, and includes a detrimental flow-on effect to suppliers and the general commerce within a community..
 8. Bookshops in particular, are hubs of their communities and thus the cultural health of communities throughout New Zealand are put at risk if they cannot compete fairly.
 9. We are in favour of the earliest possible implementation date. The systems that will be needed to implement the new legislation are largely in place as a result of the requirement of offshore online retailers supplying digital services, such as e-books, to collect GST.
 10. 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 own research has suggested it could be much higher.

11. Research conducted by Victoria University for BSNZ in 2011 suggested that online sales by New Zealand retailers would increase substantially if offshore online retailers were required to collect GST on their sales into New Zealand.

12. 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.

13. 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. It is noted that one major supplier of books into New Zealand, Abe Books (owned by Amazon) has already informed New Zealand bookshops that if they sell into Australia the price of their books will be increased by 10 per cent as Abe Books intends to comply with the Australian legislation as of 1 July, 2018

14. 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 the complication of determining the product type and the country of origin in order to correctly apply a tariff.

15. 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.

16. We are strongly supportive of online marketplaces and "re-deliverers" 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 in many cases in the United States where States have legislated to ensure that online retailers collect sales tax on previously exempted cross border sales, re-deliverers have not been included which has created another large loophole.

17. The Australian model, like that proposed for New Zealand, closes this loophole by ensuring that re-deliverers are required to pay GST.

18. 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.

19. 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.

20. We would be happy to present our views in person and our submission is available to be made public if required.

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