Impact Summary: GST on low-value goods

Section 1: General information

Purpose
Inland Revenue, the New Zealand Customs Service and The Treasury are responsible for the analysis and advice set out in this Regulatory Impact Statement, except as otherwise explicitly indicated. This analysis and advice has been produced for the purpose of informing key policy decisions to be taken by Cabinet and stakeholders to be consulted on a Government discussion document.

Key Limitations or Constraints on Analysis
Completeness of analysis The analysis of the options presented in this document is not yet complete. However, this analysis will be completed before final policy decisions are made. Consultation with stakeholders, including through the Government discussion document, will inform the analysis. A key gap in the analysis to date is that estimates of potential GST revenue collections have not yet been completed for options 3 and 4. **Evidence of the problem** There are some uncertainties about the scale of the problem in terms of estimating the foregone GST on imported low-value goods under the current *de minimis*[1] threshold. **Quality of data used for impact analysis** It is not possible to accurately determine how many offshore suppliers could be required to register and return GST under the preferred option. It is also not possible to determine exactly how much GST revenue is foregone on low-value goods imported under the *de minimis* from offshore and consumed in New Zealand. Officials estimate, based on a ‘bottom up’ approach (using 2016 data from New Zealand Post and couriers on numbers of low-value consignments and Customs’ sample data and Australian estimates on values), that around $80 million of GST was foregone in 2016 on these purchases. This amount could be growing at a rate of 10% per annum, based on a 12% five-year average rate of growth in volumes of low-value goods and taking into account that the majority of the growth in volumes is at the lower-value end. The estimated impact is dependent on the behavioural response of offshore suppliers and New Zealand consumers to the introduction of an offshore supplier registration system for collecting GST on low-value goods. **Assumptions underpinning impact analysis** We have assumed that larger offshore supplier of goods and e-marketplaces would voluntarily comply with the proposed requirement to register and return GST, given the reputational risk involved in not complying. For the purposes of the analysis, the “compliance rate” does not refer to the proportion of offshore suppliers who would have a liability to register for GST under the preferred option, but instead the percentage of goods (by dollar value) that would be supplied by offshore suppliers who would register and voluntarily comply with the rules. For these reasons, a 75 percent compliance rate is thought to be reasonable. This assumption has been used in calculating the estimated GST revenue collections under the preferred option shown in the table in Section 4. We note that New Zealand applied GST to offshore suppliers of services in October 2016 and there has been a high level of compliance with the new rules. However, we also note that consumption of online services is more concentrated among a small number of large suppliers compared to the market for low-value goods.

[1] The Protocol of Amendment to the International Convention on the Simplification and Harmonization of Customs Procedures requires setting a *de minimis* and New Zealand is a party to this Protocol. The current *de minimis* is $60 duty owing. It means no duty is collected on low-value imported goods if the total duty is less than $60.

If offshore suppliers and marketplaces perceive the compliance costs of registering for and returning New Zealand GST to be unreasonably high, there is a risk that they may not comply with the rules or may not continue to supply goods to New Zealand. Table 1 below shows the effect of relaxing the above compliance assumption and assuming instead a level of compliance of 50%. This is considered to be a very low compliance rate, given the proposed inclusion of rules to require e-marketplaces (some of which have a large share of the goods market) to register and return GST on goods sold to New Zealand consumers through their distribution platforms.

Based on a range of compliance assumptions (50%, 75% and 100%), the numbers in Table 1 represent the estimated additional amount of GST that may be returned under the preferred option, over and above the amount of GST that would otherwise be collected at the border if the status quo was retained. These figures do not take into account the tariff revenue and border fees that are currently collected on goods valued at or below $1,000.

Table 1: Additional GST revenue that may be returned by registered offshore suppliers ($ millions - fiscal year)

Assumed compliance	2019/20 *Application at 1 October*	2020/21	2021/22	2022/23
50%	20	31	35	41
75%	43	64	72	81
100%	66	97	108	121

Based on our data and assumptions, the break-even rate of compliance (where the GST returned by offshore suppliers is equal to what would otherwise be collected if the status quo is retained) would be 28 percent for the 2019/20 fiscal year.

Estimated coverage rates of 85% (by value) of low-value goods sent through the fast freight stream and 70% through the postal stream have been used to take into account the effect of including rules which require marketplaces to register and return GST in respect of goods sold through those marketplaces to New Zealand consumers.

The total foregone GST revenue has been calculated based on an assumption that the total value of goods under the current *de minimis* is growing at 10% per annum. The forecasted potential GST collections under option 2 have also been calculated on the basis of this assumption as well as the assumption that the value of GST that would otherwise be collected by Customs under the status quo collection system will continue to grow at 5% per annum on average.

It is assumed that the application of GST to low-value imported goods would not have a significant impact on consumers' purchasing behaviour.

The extent to which consumers would bear the incidence of the tax if the preferred option is implemented is unknown and will depend on the rate of compliance and on whether, if registered, the offshore supplier passes the cost on to the consumer. This may be industry or firm specific and will depend on factors such as business practices and the elasticity of demand for products. It is assumed that in most cases the consumer would bear most of the incidence of the tax.

Consultation and testing

We have undertaken a limited consultation at this stage and plan to undertake a fuller consultation with stakeholders through submissions on the discussion document and targeted meetings with key stakeholders.

Responsible Managers (signature and date):

Chris Gillion Policy Manager Policy and Strategy Inland Revenue	Anna Cook Director Policy Policy, Legal and Governance New Zealand Customs Service
20 July 2017	20 July 2017

Section 2: Problem definition and objectives

2.1 What is the policy problem or opportunity?

In principle, GST should apply to all consumption that occurs within New Zealand, including imported goods, as this helps to ensure GST is fair, efficient and simple. However, GST is currently collected on imported goods when duty (including tariffs and GST) of $60 or more applies. This threshold is called the *de minimis* and equates to a consignment value that varies between $226 and $400 according to whether tariffs are payable. The rationale behind having a *de minimis* is to achieve a balance between the cost of collection and revenue collected, as well as to facilitate the free flow of goods across the border.

Non-collection of GST on low-value imported goods

Historically, the majority of imported goods have been imported by businesses in consignments valued above the *de minimis*. When GST was introduced in 1986, few New Zealand consumers imported goods below the *de minimis*. Therefore, the compliance and administrative costs involved in taxing imported goods below the *de minimis* were considered to outweigh the benefits of taxation at that time.

However, the growth in online purchases means that the volume of low-value imported goods on which GST is not collected is becoming increasingly significant. The implication of this is that domestic businesses are at a disadvantage compared with offshore businesses supplying products with no GST added to the price of the goods. It also obviously means that the Government is foregoing GST revenue on goods that are consumed in New Zealand; based on a five-year average, the number of imported low-value goods is growing at about 12 percent per annum and the Government is foregoing an increasing amount of GST.

Foregone revenue

Estimates of the foregone revenue vary. In 2015, Inland Revenue estimated, using a top-down approach based on credit card data, a ‘maximum potential’ foregone GST revenue figure of approximately $140 million per annum. Officials have done further work using a ‘bottom-up approach’ which indicates a lower potential foregone GST revenue figure of approximately $80 million for the 2016 calendar year. The growth of business-to-consumer imports is a relatively recent development and the amount is expected to continue to grow – estimates vary but assuming the growth in the total value at 10 percent per year[2], the amount of foregone GST is forecasted to grow to $127 million by 2021.

Competitive neutrality

The extent to which the current non-collection influences consumers’ purchasing decisions is unclear, as there are a number of reasons why New Zealand consumers may purchase goods from offshore, including overall cheaper prices, product availability and convenience. However, ideally, the tax treatment should not be a factor in consumers’ purchasing decisions.

International developments

The non-collection of GST on low-value imported goods is an international issue faced by countries that have a GST or Value Added Tax (VAT) system.

[2] The growth in the total value of low-value goods imported by New Zealand consumers would be less than the annual growth in volumes of 12%, as the majority of the growth in volumes is at the lower value bands.

From 1 July 2018 Australia will require offshore suppliers to return GST on low-value imported goods (valued at AU$1,000 or less). However, the Australian Productivity Commission is undertaking a review of the effectiveness of this model and of other possible GST collection models.

The European Union has indicated that it intends to introduce an offshore supplier registration scheme to collect VAT on low-value goods from 2021.

Singapore also announced a proposal to introduce an offshore supplier registration model for collecting GST on imported goods (valued at or below S$400) and cross-border services and intangibles. No details have yet been provided for the intended application date.

The broad framework of Singapore's proposed rules is consistent with Australia's new rules and with the systems for cross-border intangibles and services that operate in the EU Member States, New Zealand, Iceland, Japan, Korea, Norway, Switzerland and South Africa.

2.2 Who is affected and how?

The preferred option involves requiring offshore suppliers to register and return GST on their supplies of goods to New Zealand consumers valued at or below $1,000. At the same time, the *de minimis* for collecting GST and other duties on imported goods at the border would be increased to $1,000 to reflect the fact that GST would now be collected on these goods at the point of sale (rather than at the border).

Government

The New Zealand Government would collect additional GST and forego tariffs. Cost recovery fees which fund Customs' and the Ministry for Primary Industries' risk management activities at the border would also be foregone and would presumably be replaced by additional Crown funding. In 2016, the amount of tariffs collected was $5.2 million and cost recovery fees were $17 million.

Domestic businesses

New Zealand-based retailers are in favour of levying GST on low-value imported goods as they are concerned that the non-collection of GST places them at a competitive disadvantage compared with offshore suppliers of low-value goods.

Footwear and clothing manufactures would be affected by the removal of tariff duty on footwear and clothing under the proposed $1,000 threshold.

The impacts on the different parties along the supply chain (offshore suppliers, fast freight New Zealand Post and consumers) are detailed below.

Offshore suppliers and online marketplaces

Offshore suppliers (including e-marketplaces) meeting the $60,000 GST registration threshold would bear the compliance costs of registering and returning GST. Smaller suppliers who fall below this registration threshold would be unaffected (provided that they are certain that they are below the threshold).

It is possible that some smaller suppliers may not know if they might realistically make supplies to New Zealand consumers exceeding the $60,000 registration threshold and therefore may prefer to stop supplying to New Zealand customers rather than go through the exercise of figuring out whether they are liable to register (and then registering for GST if they are). However, it is expected that a lot of these smaller suppliers would sell their goods through an e-marketplace, in which case the marketplace would bear the compliance costs of registering and returning GST. E-marketplaces may be more likely to accept these compliance costs due to their greater resources and larger overall share of the market.

Fast freight

Courier companies would no longer collect GST, tariffs and fees on behalf of the Government on goods between the current *de minimis* and $1,000. This would generate some administrative cost savings for the industry.

New Zealand Post

Like courier companies, New Zealand Post would no longer be involved in collecting revenue on goods valued at or below $1,000 which may lead to some cost savings.

Consumers

Costs and savings

Under the preferred option, consumers would pay GST on imported goods under the current *de minimis* (which they currently would not pay any GST or other duty on) where these goods are supplied by a registered offshore supplier. This means that in some instances they would pay more overall for a low-value good purchased from an offshore business. However, this will not be the case if they purchase a low-value good from a supplier that does not meet the $60,000 registration threshold.

Some imported goods valued between $400 and $1000, on which GST and other duty is currently collected, would become cheaper for consumers as a result of the proposal to not collect tariffs and border fees. As a result of foregoing tariffs and border fees on goods with a value of $1,000 or less, low-value goods will also be processed through the border faster, resulting in consumers seeing improvements in the timeliness of delivery.

Access to goods

As long as offshore suppliers' compliance costs are kept to an acceptable minimum through simplified rules, it is not expected that the preferred option would significantly restrict consumers' access to goods from offshore.

However, there is a possibility of reduced access to goods if offshore suppliers and e-marketplaces refuse to supply goods to New Zealand customers as a result of the proposal. During the May 2017 Australian Senate inquiry on Australia's new offshore supplier registration system, e-Bay expressed opposition to the proposal and noted that it might geo-block Australian consumers from buying goods on its platform.

It should be noted, however, that the then-proposed implementation date for the proposal was 1 July 2017 which, according to submitters, did not allow offshore suppliers and e-marketplaces enough time to prepare for the changes so that they could comply with the new rules. As a result of the concerns expressed by submitters and the lack of consideration of other options, the application date for the legislation was delayed to 1 July 2018.

Increased certainty and simplicity

The elimination of tariff duties and border fees on goods valued at or below $1,000 coupled with the supplier charging GST at the point of sale would provide consumers with greater certainty of the total cost of their imported goods compared with the status quo.

2.3 Are there any constraints on the scope for decision making?

An option where financial intermediaries are responsible for returning GST on credit card purchases of low-value goods from offshore was briefly considered and quickly ruled out. The previous work on GST on cross-border services and intangibles considered this option and it was thought to be not feasible because financial intermediaries would be unlikely to have the information necessary to determine if a good or service was supplied by an offshore supplier (and if they did, they likely would not to be able to tell if it was consumed overseas or in New Zealand).

Options 1, 3 and 4 (see below) were being analysed by Customs, Inland Revenue and the Treasury as part of the policy development process, but Ministers decided that the Government discussion document would focus only on the offshore supplier registration option (option 2). The main reason for this is because it is the most efficient method of collecting GST on low value goods, and because other countries, particularly Australia, seem to be moving towards offshore supplier registration as an option for collecting GST/VAT on low-value imports (which means that New Zealand may benefit from following these early adopters). The benefits to New Zealand of international consistency in the adoption of an offshore supplier registration system are discussed further in Section 3.

One interdependency is with the Ministry for Foreign Affairs and Trade's ongoing work on tariffs. Under the preferred option, tariffs would be not be collected on imported goods with a value of $1,000 or less.

Customs' border risk management and the Ministry for Primary Industries' current biosecurity processes are reliant on information about the content of low-value goods. For example, courier companies provide information on low-value goods prior to their arrival at the border for risk management. Data from tariff codes are used by the Ministry for Primary Industries and Customs to risk assess consignments at the border.

There are also cost recovery implications for Customs and the Ministry for Primary Industries, associated with the proposed removal of the Import Entry Transaction Fee and the Biosecurity Systems Entry Levy (which fund Customs' and the Ministry of Primary Industries' risk and biosecurity assessment activities at the border, as well as Customs' revenue collection activities) from goods with a value of $1,000 or less.

Section 3: Options identification

3.1 What options have been considered?

The overarching objectives of this project are to improve the collection of GST on low-value imported goods and, in doing so, to ensure competitive neutrality, so that the GST treatment of low-value imported goods is no different to goods sold domestically. This requires the consideration of the usual tax policy objectives such as the broad-base, low rate framework, efficiency of collection and sustainability of GST revenue.

This work also requires the balancing of wider Government objectives against these tax policy objectives. These wider Government objectives include minimising as far as is practicable any reduction in consumer welfare associated with the broadening of the GST base, as well as Customs' and the Ministry of Primary Industries' objective of maintaining the current levels of border protection.

To be effective in addressing the problem identified, it is necessary that the chosen solution must perform well against our tax policy objectives. However, because of the Government's wider objectives, strong performance against the tax policy objectives is not sufficient in itself; therefore, possible impacts related to consumer welfare, border risk management and biosecurity must also factor into the analysis.

The following key has been used for assessing how well the options perform against these objectives, compared with the status quo:

✓✓ Significantly better than the status quo

✓× Better than the status quo

×× Worse than the status quo

Three policy options and the status quo were considered for addressing the policy problem and meeting the objectives. These were:

- **Option 1:** Retain the current GST and tariff duty collection processes where no GST or tariff duty is collected at the border on goods below the *de minimis*. This is the status quo option which the other options are being assessed against.
- **Option 2:** Require offshore suppliers to register for, collect and return GST on low-value goods supplied to New Zealand resident customers and remove tariff duty and border fees from goods valued at or below $1,000.
- **Option 3:** Require the New Zealand resident customer to return the GST and tariff duty on low-value goods purchased from offshore suppliers (known as a "pay after delivery" or "reverse charge" mechanism).
- **Option 4:** Require fast freight courier companies and New Zealand Post to collect GST and tariff duty on imported goods above a lowered *de minimis*.

The criteria against which the options have been assessed are:

- **Certainty and simplicity:** The rules should be clear and simple to understand, so that taxpayers are aware of the GST treatment of a particular supply and their GST obligations.
- **Efficiency of compliance:** Compliance costs for taxpayers should be minimised as far as possible.
- **Efficiency of administration:** Administrative costs for government departments should be minimised as far as practicable.

- **Fairness and equity:** Taxpayers in similar situations carrying out similar transactions should be subject to similar levels of taxation.
- **Sustainability and neutrality:** The option must have the ability to meet the objectives of collecting the foregone GST revenue and reducing the distortions the current treatment brings about. Counteracting measures should be kept proportionate to the risks involved.

Option 1: Status quo

Assessment against objectives

Foregone GST (2016)	Competitive neutrality	Maintaining consumer welfare	Maintaining the current levels of border protection
$80 million	**Does not meet**	**Meets**	**Meets**

Assessment against criteria

Certainty and simplicity

Under the status quo, consumers pay GST on imported goods to Customs if the total duty on the good (including GST and tariffs) is $60 or more. $400 is commonly understood as the value at which a parcel is likely to be assessed for revenue by Customs and is based on the assumption that GST is the only duty applying to the good.

In some instances, the current system is not simple or certain for consumers to interact with. For example, a consumer that imports a good valued between $226 and $400 on which tariff duty of 10% applies might be surprised to discover that they are liable to pay GST, tariff duty and a cost recovery fee to Customs if they want their good to be released.

Efficiency of compliance

The status quo does not impose compliance costs on offshore suppliers of goods.

When consumers import goods above the *de minimis*, they are required to enter into a second transaction to pay the GST and border fees (and tariff duty, if applicable) on their goods to Customs. They are also likely experience delays associated with the collection of revenue on their goods.

Fast freight courier companies currently collect GST on goods above the *de minimis* where these goods are sent through the fast freight stream, which imposes some administrative costs on them.

New Zealand Post incurs costs in checking consignments over the *de minimis*.

Efficiency of administration

Increasing volumes of low-value goods place pressure on the current revenue collection processes, some of which are manual and resource intensive. Unless better information, particularly in the postal stream, becomes available, there are logistical challenges and costs involved with managing increasing volumes.

Fairness and equity

The current tax collection process places domestic businesses at a competitive disadvantage compared with offshore businesses that can supply low-value goods directly to New Zealand consumers without the imposition of GST.

Sustainability and neutrality

The issues of competitive neutrality would remain unaddressed and are likely to worsen over time if the growth in online shopping for low-value goods continues to grow more rapidly than domestic spending on consumer goods.

Incremental improvements to efficiency of collection under the current system will become possible over time with better data availability (including advance parcel data from the postal system); however, it is uncertain that this will be enough to be sustainable in the long term, given the existing pressures on the system and the rate of growth in parcel volumes.

In the medium term, increased system pressures (including delivery delays for consumers) are likely if investment in border processing capacity is not made or lags behind the growth in online shopping.

Option 2: Offshore supplier registration (preferred option)

Assessment against objectives and status quo

Estimated additional GST collections	Competitive neutrality	Maintaining consumer welfare	Maintaining the current levels of border protection
$43 million in 2019/20, expected to grow to $81 million in 2022/23	✓✗	✗✗	✓✗

Under this option, tariff revenue and border fees would not be collected on goods with a value of $1,000 or less.

GST would not be collected from offshore suppliers who make total supplies to New Zealand consumers below the $60,000 GST registration threshold in a 12-month period. The collection would also be impacted by the level of compliance.

Assessment against criteria

Certainty and simplicity

This system is widely used internationally for taxing cross-border services and domestic supplies. It should therefore be familiar to international suppliers who supply both services and goods or who are resident in countries with a VAT or GST.

Australia has recently enacted legislation which will apply GST to low-value goods supplied by non-residents using an offshore supplier registration system from 1 July 2018. If this option is implemented in New Zealand from 1 October 2019, a number of suppliers may have already registered and returned GST under Australia's rules by this time, so they would already be familiar with such a system for goods.

New Zealand's GST system is broad-based, with a single rate and almost no exemptions for goods, and therefore should be relatively simple for offshore suppliers to comply with.

However, there will be more GST collection entities compared to the status quo.

The charging of GST by the supplier at the point of sale, coupled with the removal of tariff duties and border fees on imported goods valued at or below $1,000 would provide increased upfront certainty for consumers regarding the total cost to them of the goods they import.

Efficiency of compliance

This option would impose compliance costs on offshore suppliers, most of whom would not be required at present to interact with New Zealand's GST system. However, compliance costs to offshore suppliers should be relatively minimal because New Zealand's GST system is simple compared to other VAT/GST systems around the world. However, there could be significant upfront IT system upgrade costs. Implementing simplified registration processes and other rules aimed at minimising compliance costs are expected to keep compliance costs to an acceptable minimum for the majority of the large offshore suppliers who are well-resourced and who are more likely to have IT systems in place that have the capability to account for GST on supplies to New Zealand consumers.

There would be administration cost savings to courier companies, who would no longer collect GST on goods between the current *de minimis* and $1,000, but will have to provide information to Customs for border and biosecurity risk management.

Efficiency of administration

This option is relatively efficient to administer given systems are already in place to register offshore suppliers of cross-border services as well as domestic suppliers. There would be modest administration cost savings to Customs.

Fairness and equity

Offshore suppliers would be subject to the same rules as those applying to domestic businesses. Consumers should be indifferent as to whether they purchase low-value goods from a domestic or offshore supplier as both suppliers would be required to return GST on that supply.

Sustainability and neutrality

From a tax policy standpoint, this option is neutral because offshore suppliers would be subject to the same GST rules that apply to domestic suppliers (including the $60,000 registration threshold which applies in the domestic context). The sustainability and neutrality of this option in practice depends on the extent to which liable offshore suppliers comply with the rules. Failure on the part of large international suppliers of low value goods (including the prominent marketplaces) to comply with their tax obligations would pose a significant reputational risk to these suppliers.

Where similar rules have been applied in other countries to tax cross-border services and intangibles, offshore suppliers have demonstrated a willingness to comply. This has been the experience in New Zealand so far with the new GST rules for cross-border services and intangibles. It is therefore expected that the majority of the largest offshore suppliers would voluntarily comply.

We do not know yet if consumers' access to goods would be significantly reduced. Delivery times may also be shorter, or at least would not be any slower than under the status quo.

Option 3: Pay after delivery/reverse charge

Assessment against objectives

Estimated additional GST collections	Competitive neutrality	Maintaining consumer welfare	Maintaining the current levels of border protection
Not estimated	✓✗	✗✗	✗✗

Because of the compliance and administrative costs involved with this option, it is likely that a *de minimis* threshold would still be required. GST would be collected on all goods above the *de minimis* which, it is expected, could be set at a much lower level than the effective *de minimis* (where GST is the only duty applying) under the current collection system of $400. Under this option, all goods above the *de minimis* are liable to GST (unlike option 2). However, because consumers receive their goods before they make payment, the level of compliance could potentially be low.

Assessment against criteria

Certainty and simplicity

A large number of taxpayers would be required to return GST, compared with the status quo and with options 2 and 4 where a relatively small number of offshore suppliers or postal/freight carriers would be required to return the GST. At present, most individuals are not required to file personal income tax returns because their income (for instance, from salary, wages or interest) is withheld at source. Given that a large number of individual taxpayers are not currently required to interact with the tax system by filing tax returns or by directly making payments of tax themselves to Inland Revenue, this option may not be simple for some individuals to comply with.

This option could potentially be as simple as paying a parking ticket or a road toll, but compliance may be a major issue.

Efficiency of compliance

As mentioned above, this option would impose compliance costs on a relatively large group of consumers and for relatively small amounts of GST.

Efficiency of administration

Administrative costs are also likely to be significant as this option would involve the development of a new system of receiving GST payments. Resources would also need to be allocated to ensuring consumers complied with their tax obligations, by promoting awareness, providing guidance materials and dealing with enquiries, errors and refunds.

Fairness and equity

The fairness of this option depends on the extent to which consumers comply with the rules, and, where there is non-compliance, whether the penalties are proportionate to the offence. If there is widespread non-compliance, then this option would do little to address the existing fairness issue where domestic retailers are at a competitive disadvantage because of the non-collection of GST on imported goods.

Whether consumers would be required to pay GST on gifts they have received from overseas and the fairness implications of requiring them (or not requiring them) to do so would also need to be considered.

Sustainability and neutrality

If applied consistently and successfully, GST would be returned on both goods provided domestically and from offshore. However, the method of collection would differ significantly depending on whether the supplier was offshore or onshore.

This option would at least not reduce consumers' access to goods supplied from offshore and would not lead to any revenue-related delays in delivery. However, when this option has been applied in other jurisdictions to tax cross-border services received by consumers, its success has been limited. This is likely due to a number of factors such as lack of awareness of the requirement to return GST given that consumers are accustomed to GST being included in the purchase price, and the potential difficulty of enforcing a reverse charge on such a large taxpayer base.

In some cases, the New Zealand purchaser may not realise they are buying from a non-resident supplier. For example, an offshore supplier could have a New Zealand domain name (.co.nz) or a separate chain of New Zealand retail stores. A system could however be put in place where parcels on which GST is required to be paid are identified by Customs at the border and stickers instructing the recipient how to pay the GST are placed on the parcels.

Option 4: Post and courier companies collect the GST

Assessment against objectives

Estimated additional GST collections	Competitive neutrality	Maintaining consumer welfare	Maintaining the current levels of border protection
Not estimated	✓✗	✗✗	✓✗

Under this option, tariff revenue and border fees would continue to be collected on low-value goods above a *de minimis* threshold. GST would be collected on all goods above the *de minimis*, and it could be lowered at some point in time; however, the magnitude and timing of a potential reduction in the *de minimis* is not yet clear. Under this option there is expected to be relatively high collection above the *de minimis* for goods sent through the fast freight stream; however, undervaluation of goods shipped through the postal stream (of which there are a significant number) is rife and, in the medium term, is likely to go undetected due to the lack of advance data for these parcels.

However, where goods are identified as requiring payment of duty, compliance by consumers in paying the GST and other duty would be high like it is under the status quo, since the goods are not delivered until payment is made.

Assessment against criteria

Certainty and simplicity

The rules should be simple for couriers to understand and comply with, as they already have systems in place for collecting and remitting the GST to government. However, such a system would not be simple for New Zealand Post to comply with in the medium term. As postal systems do not currently provide for the collection of advance data on imported goods, the postal system cannot yet efficiently implement this option, although there are a number of developments occurring that will allow for this in the future. Therefore, this option would not be likely to lead to increased simplicity and certainty compared with the status quo.

Efficiency of compliance

A reduced *de minimis* under this option would increase administrative costs for couriers, and for New Zealand Post in particular. Post and fast freight would likely collect a similar amount of revenue at a similar cost to the status quo collection mechanism with a lowered *de minimis*. Therefore, while this option would reduce administration costs for government, these costs would be shifted to courier companies and New Zealand Post.

Efficiency of administration

Administration costs for Customs would be lower than under the status quo.

Fairness and equity

The extent to which this option would improve competitive neutrality is dependent on the extent to which the *de minimis* can be reduced.

Sustainability and neutrality

If the *de minimis* could be reduced significantly to a low level, this approach may capture a high proportion of the foregone GST revenue and could therefore go a long way towards addressing the current distortion. However, as stated above, a significant reduction to the *de minimis* would not be feasible in the medium term.

This option is likely to result in further delivery delays for consumers compared with the status quo.

3.2 Which of these options is the proposed approach?

The preferred option is option 2, offshore supplier registration. It is the preferred option because it is a low-cost option for collecting GST on low-value goods (in terms of both administration and compliance costs), and because it meets the objectives of simplicity and certainty, neutrality, effectiveness, fairness and sustainability and is coherent within the overall GST framework. It also follows the international precedent being set by Australia, which Singapore intends to follow and which the EU intends to implement in 2021.

The proposed approach would address the problems identified by making offshore suppliers of low-value goods subject to the same GST rules as those that domestic suppliers and offshore suppliers of cross-border services are required to comply with. This would therefore ensure that GST is liable to be charged on imported goods below the current *de minimis* if the goods are supplied by a supplier who is liable to register.

However, the level of compliance could potentially be an issue. Compliance might be better assured under the option where courier companies and New Zealand Post collect duty on goods above a lowered *de minimis*, as the consumer would not receive the goods until payment is made. However, it is likely that there would be more foregone revenue as a result of undervaluation under this option, compared with option 2.[3] Implementing this option with a lower *de minimis* would also be challenging without new technology and systems, including advance data in the postal stream, and it is not certain how much the *de minimis* could be reduced by and when.

The proposed approach is not incompatible with the Government's *'Expectations for the design of regulatory systems'*.

---

[3] Where GST might not be collected at present as a result of undervaluation by the supplier, this currently foregone GST revenue may be collected under an offshore supplier registration system in cases where an e-marketplace is responsible for returning the GST instead of the underlying supplier.

Section 4: Impact Analysis (Proposed approach)

4.1 Summary table of costs and benefits

Affected parties	Comment:	Impact
Additional costs of proposed approach, compared to taking no action		
Regulated parties	The costs to offshore suppliers would include registering for GST (one-off), altering business systems to account for GST on goods sold to New Zealand consumers (one-off), and returns filing (ongoing). It is assumed that compliance would be high, based on the experience so far with the GST rules for cross-border services and intangibles.	Potentially high upfront systems and low ongoing compliance costs for offshore suppliers above the $60,000 of NZ sales registration threshold
Regulators	The implementation costs to Inland Revenue are estimated to be up to $460,000. This includes the costs to change the current registration form for suppliers of cross-border services to accommodate offshore suppliers of low-value goods and other minor systems changes. It also allows for an increase in the volume of work for staff currently processing registrations. Loss of revenue from border fees to Customs and the Ministry for Primary Industries	Up to $0.46m Approximately $17m in border fees and likely to increase in coming years with the increasing volume of low-value goods.
Wider government	The government would forego tariff revenue collected on low-value goods and Crown funding would be required for border fees foregone by the Ministry for Primary Industries and Customs.	Approximately $5.2m per year and likely to increase in coming years with increasing volume of low-value goods.
Other parties	Consumers would likely pay more for imported goods that are currently below the *de minimis*. Some consumers may pay less because of the proposed removal of tariff duty and border fees. The availability of some goods from overseas may also decrease.	$43m of additional GST imposed on NZ consumers for the 2019/20 fiscal year $64m of additional GST imposed on NZ consumers for the 2020/21 fiscal year $72m of additional GST imposed on NZ consumers for the 2021/22 fiscal year $81m of additional GST imposed on NZ consumers for the 2022/23 fiscal year

Total Monetised Cost		Up to $66m for the 2019/20 fiscal year Up to $87m for the 2019/20 fiscal year Up to $95m for the 2019/20 fiscal year Up to $104m for the 2019/20 fiscal year
Non-monetised costs	Potential lower efficiency of the domestic retail market due to reduction in competitive advantage to offshore suppliers, which may lead to reduced competition from offshore.	Unable to estimate

Expected benefits of proposed approach, compared to taking no action		
Regulated parties	N/A	N/A
Regulators	Additional GST revenue Improved risks management for Customs and the Ministry for Primary Industries	$43m of additional GST revenue for the 2019/20 fiscal year $64m of additional GST revenue for the 2020/21 fiscal year $72m of additional GST revenue for the 2021/22 fiscal year $81m of additional GST revenue for the 2022/23 fiscal year
Wider government	Reduction in administration costs for Customs associated with no longer collecting GST and other duties on goods between the current *de minimis* and $1,000.	Low
Other parties	Reduction in administration costs for fast freight couriers associated with no longer collecting GST and other duties on goods between the current *de minimis* and $1,000. Reduction in costs to New Zealand Post Possible reduction in delivery delays and increased simplicity and certainty for consumers regarding the total cost to them of their imported low-value goods. Increased competitive neutrality between domestic retailers and offshore suppliers.	Unable to estimate

Total Monetised Benefit		$43m for the 2019/20 fiscal year $64m for the 2020/21 fiscal year $72m for the 2021/22 fiscal year $81m for the 2022/23 fiscal year
Non-monetised benefits		Medium

4.2 What other impacts is this approach likely to have?

Offshore suppliers would be subject to the same rules as those applying to domestic businesses. This will be a new compliance regime for offshore suppliers.

The application of GST to imported goods below the current *de minimis* may reduce the demand for such goods. A study by UMR Research shows that consumers are price sensitive, particularly at the lower-value end.[4] However, the extent to which the collection of GST on these goods would reduce consumer demand is likely to be influenced by other factors, such as the domestic availability of the goods.

Where the GST-exclusive price of a good (including delivery costs) is the same regardless of whether it is supplied domestically or from offshore, consumers should be indifferent as to whether they purchase it from the domestic retailer or from the offshore supplier, assuming no difference in quality and delivery times. This is because both suppliers would be required to return GST on the supply of that good if both suppliers are above the registration threshold (which, due to the proposed inclusion of marketplace rules, is likely to be the case in most instances).

The removal of tariff and cost recovery charges on some goods and faster processing times may increase demand for goods valued between $400 and $1,000.

The preferred strategy, as with the rest of the New Zealand tax system, is to rely primarily on voluntary compliance. It is however recognised that some consumers may be incentivised to buy from suppliers who do not charge GST on their purchases.

Some suppliers may try to avoid detection as being liable to register by shifting their method of transporting their goods from freight to the postal system where the quality of parcel data is much poorer than in the fast freight stream.

[4] http://www.customs.govt.nz/news/resources/legal/Documents/UMR-Report-NZ-Customs-consumer-motivation-for-purchases-of-low-value-goods.pdf

Section 5: Stakeholder views

5.1 What do stakeholders think about the problem and the proposed solution?

Meetings with some stakeholders, including New Zealand Post, the Conference of Asia Pacific Express Carries (CAPEC[5]), Consumer NZ and Retail NZ have been held. At the time of drafting this Regulatory Impact Assessment, these stakeholders are not aware of the upcoming release of a discussion document proposing an offshore supplier registration system.

CAPEC and New Zealand Post have not been consulted specifically on the analysis and the proposed approach. However, they have flagged their opposition to immediately lowering the *de minimis* under the status quo.

Retail industry groups such as Booksellers NZ and Retail NZ are in favour of an offshore supplier registration system, however the proposed waiver of tariffs and border clearance levies may influence their position.

Officials also met with representatives from a technology company in July 2017 which has developed a system that could be used for collecting GST from consumers after the delivery of the goods. This company is therefore in favour of the pay after delivery/reverse charge option.

Offshore suppliers of low-value goods and domestic consumers have not been consulted yet. Their views about the analysis of the problem and proposed option will be sought through the submission process for the discussion document.

---

[5] An industry body representing four courier companies – DHL, FedEx, TNT and UPS

Section 6: Implementation and operation

6.1 How will the new arrangements be given effect?
The proposed option will require legislative change and would be largely based on the system that has applied to cross-border services and intangibles since 1 October 2016. The option will also require regulatory changes to the current border management arrangements. This will be considered as part of final policy decisions, and will be considered further in a later Regulatory Impact Assessment. Subject to consultation and final policy decisions, the proposal is likely to come into effect in 2019 which is expected to provide sufficient preparation time for offshore suppliers.

Section 7: Monitoring, evaluation and review

7.1 How will the impact of the new arrangements be monitored?

Inland Revenue will monitor the outcomes pursuant to the Generic Tax Policy Process ("GTTP") to confirm that they match the policy objectives. The GTPP is a multi-stage policy process that has been used to design tax policy in New Zealand since 1995.

Customs and the Ministry for Primary Industries will monitor the impact on the management of border and biosecurity risks.

If the preferred option is implemented and compliance with the new regime is lower than expected after 12 months of its implementation, Inland Revenue will explore options for increasing compliance. This could include joint compliance initiatives with other jurisdictions that have similar rules, including possible data matching programmes with other jurisdictions and Customs.

This will be considered further in a later Regulatory Impact Statement after final policy decisions have been made.

7.2 When and how will the new arrangements be reviewed?

The final step in the GTPP is the implementation and review stage, which involves post-implementation review of legislation, and the identification of remedial issues. Post-implementation review is expected to occur around 12 months after implementation. Opportunities for external consultation are built into this stage.

Any necessary changes identified as a result of the review would be recommended for addition to the Government's tax policy work programme.