

The Treasury

Budget 2018 Information Release

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[40]	not in scope	
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.



Tax policy report: **Cabinet paper and draft discussion document – GST and low-value imported goods**

Date:	15 March 2018	Priority:	High
Security level:	In Confidence	Report no:	T2018/673 IR2018/153 RPT 18/037

Action sought

	Action sought	Deadline
Minister of Finance	Note contents of the report Authorise the Cabinet paper for lodging with the Cabinet office	10am 29 March 2018
Minister of Revenue	Note contents of the report Authorise the Cabinet paper for lodging with the Cabinet office	10am 29 March 2018
Minister of Customs	Note contents of the report Authorise the Cabinet paper for lodging with the Cabinet office	10am 29 March 2018

Contact for telephone discussion (if required)

Name	Position	Telephone
Matt Cowan	Team Leader, The Treasury	[39] (wk) [23] (mob)
Chris Gillion	Policy Manager, Inland Revenue	[39] (wk) [23]
Frances Scott	Policy Manager, Customs	- [23]

15 March 2018

Minister of Finance
Minister of Revenue
Minister of Customs

Cabinet paper and draft discussion document – GST and low-value imported goods

1. We reported to Ministers last week [IR2018/123, T2018/509 and Customs RPT 18/032 refer] seeking a decision on the scope of public consultation on an offshore supplier registration system for collecting Goods and Services Tax (GST) on low-value imported goods. On 12 March 2018, the Ministers of Finance and Revenue advised officials that they were agreeing to approach (b) outlined in the report (decide to implement an offshore supplier registration system for imported goods valued at or below \$400 and consult only on how the system will work in practice).

2. This report attaches a Cabinet paper and draft discussion document proposing an offshore supplier registration system to collect GST on low-value imported goods, and asks Ministers to authorise and lodge the attached papers with the Cabinet Office. We understand that you would like the paper to be considered by the Cabinet Economic Development Committee (the Committee) on Wednesday 4 April. This will require the Cabinet paper to be lodged with the Cabinet Office by 10am on Thursday 29 March.

3. The Cabinet paper seeks the Committee's agreement to implement an offshore supplier registration system for collecting GST on imported goods from 1 October 2019 and to release a discussion document which:

- seeks submissions on the key design features of an offshore supplier registration system for collecting GST on imported goods valued at or below \$400; and
- proposes to remove tariffs and cost recovery charges for goods valued at or below \$400.

4. All current border processes for goods valued above \$400 (including GST, tariffs, cost recovery charges and risk and biosecurity assessment) would remain unchanged.

Application date – 1 October 2019

5. The proposed application date for the new rules is 1 October 2019. This date is intended to provide offshore suppliers with enough time to implement any changes following enactment of legislation. Australia's recent experience with enacting their legislation on GST and low-value imported goods highlights that sufficient lead-in time is seen as crucial to the success and workability of the rules, and to get buy-in and support from offshore suppliers and other key stakeholders.

6. Assuming the Cabinet paper and draft discussion document are considered by the Committee on 4 April 2018, the following table outlines a proposed timeline which would provide for around three months between legislative enactment of the proposed rules and implementation:

	Timeline
Cabinet consideration	9 April 2018
Release of discussion document	Any time after Cabinet meeting on 9 April 2018
Submissions close	End of May / early June (<i>8 weeks for submissions</i>)
Report on submissions and final policy recommendations	Late June
Cabinet approval on final design	October / November 2018
Introduce legislation	November 2018
Enact legislation	July 2019
Application date	1 October 2019

Communications

Interaction with the Tax Working Group's submissions process

7. Ministers may want to consider how the public consultation on the offshore supplier registration system will interact with the Tax Working Group's consultation process. Given that the issue of collecting GST on low-value imported goods is within the scope of the Tax Working Group's terms of reference and a call for submissions has now been made, some stakeholders may already be preparing submissions on this issue for the Tax Working Group to consider.

8. We suggest that the press release accompanying the discussion document should notify those that were planning to make a submission to the Tax Working Group on this issue that they should instead make a submission on the discussion document. Subject to the Tax Working Group's agreement, submissions received by the Tax Working Group on this issue could be forwarded to the consultation on the discussion document so that they may be considered as part of that process.

Consultation with offshore suppliers and marketplaces

9. Consultation on an offshore supplier registration system will require a different stakeholder engagement strategy to that usually used for tax policy consultations, since many of the affected stakeholders are based offshore. Inland Revenue officials are continuing to engage with the Australian Tax Office (ATO) to learn from their experience with consulting offshore suppliers and marketplaces so that we get the most out of engaging with these stakeholders.

10. [26]

Getting the message across to both businesses and governments in the region that the new rules will subject offshore suppliers to the same

requirements already faced by New Zealand businesses will therefore be instrumental in maximising voluntary compliance by these suppliers.

Zero-rating all business-to-business imported goods

11. At the time of the Customs and Excise Act review, stakeholders proposed excluding businesses from the requirement to pay GST to Customs for imported goods. This request was not granted.

12. Under the proposed offshore supplier registration system, goods imported by GST-registered businesses with a value of \$400 or less will not be subject to GST. The proposal to exclude supplies of low-value goods to businesses from the offshore supplier registration system is likely to lead to requests once again to zero-rate business imports more generally. This issue will be explicitly addressed as part of the engagement plan to be developed around the release of the discussion document.

Border and biosecurity risk management

13. It is important that requirements to provide information to support border and biosecurity risk management remain to ensure the Ministry for Primary Industries and Customs receive necessary risk assessment information on individual consignments. The Cabinet paper and discussion document signal that the Ministry for Primary Industries and Customs will continue to collect information to support effective border risk management and will work with industry to improve information over time.

14. The Cabinet paper also seeks in-principle agreement from Cabinet that Crown funding will replace Customs' and the Ministry for Primary Industries' lost cost recovery revenue (as a result of changing the *de minimis* to \$400 based on the value of the goods) and that the funding will continue to be adjusted over time to take changes in import volumes into account.

15. The previous report to you noted that the amount of lost cost recovery revenue as a result of implementing an offshore supplier registration system is estimated to be up to \$3.7 million. The figure of \$3.7 million was inclusive of GST and should have instead been the GST-exclusive figure of \$3.2 million. The discussion of the cost recovery revenue in the Cabinet paper uses the correct GST-exclusive figure of \$3.2 million.

Recommended action

We recommend that you:

- (a) **Note** the contents of this report.

Noted

Noted

Noted

- (b) **Authorise** the attached Cabinet paper and draft discussion document for lodgement with the Cabinet Office by 10am on Thursday 29 March.

Authorised

Authorised

Authorised

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Anna Cook
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Hon Grant Robertson
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