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Tax policy report: **GST and low-value imported goods – proposed consultation on an offshore supplier registration system**

Date:	8 March 2018	Priority:	High
Security level:	In Confidence	Report no:	IR2018/123 T2018/509 RPT 18/032

Action sought

	Action sought	Deadline
Minister of Finance	Note contents of the report Agree to the recommendations	12 March 2018
Minister of Revenue	Note contents of the report Agree to the recommendations	12 March 2018
Minister of Customs	Note contents of the report Agree to the recommendations Refer a copy of the report to the Minister for Biosecurity	12 March 2018

Contact for telephone discussion (if required)

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8 March 2018

Minister of Finance
Minister of Revenue
Minister of Customs

GST and low-value imported goods – proposed consultation on an offshore supplier registration system

Executive summary

1. In late February 2018, the Chair of the Tax Working Group (the Group) wrote to you about the Group's recommendations for collecting GST on low-value imported goods. The Group recommended that:

- The Government implement an offshore supplier registration system to collect GST on imported goods from suppliers who exceed the GST registration threshold.
- The *de minimis* (the threshold below which GST and other duties are not collected on imported goods by Customs) should be changed from being based on \$60 of duty payable to a \$400 threshold based on the value of the goods.
- The Government should consult on the proposed offshore supplier registration system to ensure it is effective.
- The extended status quo and pay after delivery options should continue to be reviewed following the implementation of an offshore supplier registration system to see if the practical issues with those options can be overcome.

2. In light of these recommendations, this report seeks a decision from Ministers to either:

- (a) consult on a proposal to introduce an offshore supplier registration system for imported goods valued at or below \$400; or
- (b) decide to implement an offshore supplier registration system for goods valued at or below \$400, and consult only on how the system will work in practice.

3. Officials recommend approach (a). While an offshore supplier registration system is the most feasible option for collecting GST on low-value imported goods, we believe it would be better to publicly consult on the proposal before making a decision to implement it.

4. Whichever approach Ministers decide to take, this report also seeks your agreement to the design features of an offshore supplier registration system to be consulted on under either approach.

5. Officials suggest that a discussion document could be released in April 2018. If Ministers wish to proceed with an offshore supplier registration system following public consultation, the final policy proposals could then be included in a tax bill for introduction in late 2018. This would allow for implementation on 1 October 2019 as the earliest possible application date.

6. Based on a conservative estimate of the total foregone revenue, officials estimate that an offshore supplier registration system for imported goods valued at or below \$400 may collect \$78 million in additional GST revenue for the 2020/21 fiscal year. This assumes that 75% of the potential GST revenue that could be collected on goods sold by suppliers that would be required to register is actually collected. This revenue could be included in Budget 18 forecasts under approach (b), but not under approach (a). This is because under approach (a) there is insufficient certainty at this stage that the offshore supplier registration system would ultimately be implemented.

7. The loss of import duties associated with the recommended offshore supplier registration system would be less than \$0.63 million, while the amount of lost cost recovery charges for Customs and the Ministry for Primary Industries (which would require replacement Crown funding) is estimated to be up to \$3.7 million.

(g) **Agree** to seek in-principle Cabinet agreement to additional baseline funding for Customs and the Ministry for Primary Industries to replace lost cost recovery revenue.

Agreed / Not Agreed

Agreed / Not Agreed

(h) **Refer** this report to the Minister for Biosecurity.

Referred

Mark Vink
Manager
The Treasury

Chris Gillion
Policy Manager
Inland Revenue

Anna Cook
Director Policy
Customs

Hon Grant Robertson
Minister of Finance

Hon Stuart Nash
Minister of Revenue

Hon Meka Whaitiri
Minister of Customs

Purpose

8. This report seeks your agreement to the approach for public consultation on a proposal to collect Goods and Services Tax (GST) on low-value imported goods, following the Tax Working Group's recommendations to the Government on this issue.

9. It also seeks your agreement on some key design features of an offshore supplier registration system for imported goods (outlined in Appendix I of this report) to be included in a Government discussion document.

Background

10. On 30 November 2017, officials from Inland Revenue, Customs and Treasury reported to you on options for collecting GST on low-value imported goods [IR2017/606, RPT 17/189 and T2017/2692 refer]. The options identified in the report included:

- **At the point of sale:** offshore suppliers would be required to register for, collect and return GST ("offshore supplier registration").
- **Between the point of sale and delivery:** courier companies and New Zealand Post would collect GST, tariffs and cost recovery charges ("extended status quo").
- **After delivery of the goods:** recipients would pay GST directly to the government after the goods have been delivered ("pay after delivery").

11. More detail on the extended status quo and pay after delivery options is provided in Appendix II.

12. In January 2018, Ministers asked the Tax Working Group (the Group) to consider options for collecting GST on low-value imported goods. In late February, the Chair of the Group wrote to you with the Group's recommendations. The letter from the Chair is attached to this report.

The Tax Working Group's recommendations

13. The Group considered all three options outlined above, and concluded that practical concerns with the extended status quo and pay after delivery options make them unfeasible in the short term. On this basis, the Group recommended that:

- The Government implement an offshore supplier registration system to collect GST on imported goods from suppliers who exceed the GST registration threshold.
- The *de minimis* (the threshold below which GST and other duties are not collected on imported goods by Customs) should be changed to a \$400 threshold based on the value

of the goods. Due to concerns about foregoing GST on goods supplied by unregistered sellers, the Group did not support an increase in the threshold above \$400.

- The Government should consult on the proposed offshore supplier registration system to ensure it is effective.
- The extended status quo and pay after delivery options should continue to be reviewed following the implementation of an offshore supplier registration system to see if the practical issues with those options can be overcome.

Officials' advice on the Group's recommendations

Public consultation on the recommended offshore supplier registration system

14. Officials agree with the Group's conclusion that an offshore supplier registration system is the most feasible option in the short term.

15. A key consideration in giving effect to the recommended offshore supplier registration system will be the scope of public consultation. The Government could either:

- (a) consult on a proposal to introduce an offshore supplier registration system for imported goods valued at or below \$400 and how it would work; or
- (b) decide prior to consultation that an offshore supplier registration system for goods valued at or below \$400 will be introduced. The scope of consultation would then be limited to how the system will work in practice.

16. While approach (b) is more in line with the Group's recommendation, officials recommend approach (a). This is because, while an offshore supplier registration system is the most feasible option at this time, we believe it would be better to consult stakeholders before a decision is made on whether to implement such a system to ensure the proposals are workable in practice. This is highlighted by the recent experience in Australia where a number of offshore suppliers considered they had not been adequately consulted prior to the introduction of the draft legislation. Consequently, these suppliers expressed strong opposition to the proposals, which eventually resulted in the changes being delayed by a year.

17. In order to provide complete information to the public, officials also recommend that the other two options are mentioned in the discussion document along with a brief explanation of why they have been discounted at this time.

18. Regardless of whether Ministers decide to take approach (a) or (b), this report also seeks your agreement to the design features of an offshore supplier registration system to be consulted on under either approach.

19. If Ministers decide to implement an offshore supplier registration system for imported goods, officials will keep the extended status quo and pay after delivery options under review following the implementation of the offshore supplier registration system to see if they may become an effective means of collecting GST on low-value imported goods in the future. This in line with Group's recommendation and the approach recommended in Australia by the Australian Productivity Commission.

Changes to the *de minimis*

20. Officials recommend that the Government accept the Group's recommendation to change the *de minimis* from being based on \$60 of duty payable to a \$400 threshold based on the value of the goods imported. This would allow offshore suppliers to more easily identify whether they are responsible for collecting and remitting GST on an item, resulting in lower compliance costs. A value-based *de minimis* would also provide greater certainty to consumers about the final price of the goods they import, and is consistent with international trends.

21. In light of the Group's concerns about foregoing GST on goods supplied by unregistered sellers, officials consider setting the new *de minimis* at \$400 to be a robust option as we currently collect very little revenue on imported goods valued below \$400.

22. While Inland Revenue and Treasury officials consider that a higher *de minimis* of up to \$1,000 may also have merit due to potential efficiency gains in processing low-value goods at the border, we note that if an offshore supplier registration system for goods valued at or below \$400 is implemented and proves successful we could then look at extending the rules to imported goods with a value of \$1,000 or less. Officials also note that improvements in electronic advance data and processing efficiencies at the border, expected in the next few years, may equally allow for the *de minimis* to be lowered and a greater proportion of GST to be efficiently collected at the border. The future potential for these approaches underscores the importance of the continued review of collection options, in line with the Group's recommendation.

Timing of consultation and implementation timeframe

23. Officials recommend an eight week period at a minimum for public consultation. This should provide sufficient time for any implementation or other issues to be identified.

24. Subject to how much time Ministers want to allow for consultation with their Cabinet colleagues and other parties before taking a paper to Cabinet, public consultation could begin in April 2018 and be finished by June 2018.

25. If Ministers wish to proceed with an offshore supplier registration system, the final policy proposals could then be included in a tax bill for introduction in late 2018. This would allow for implementation on 1 October 2019 as the earliest possible application date, since sufficient lead-in time between legislative enactment and the date the new law takes effect would be necessary to ensure that suppliers have sufficient time to make changes to their systems to successfully implement the new rules.

Key design features

26. A number of key features need to be considered when designing an offshore supplier registration system to collect GST on low-value imported goods. To ensure compliance costs under an offshore supplier registration system for goods are kept to a minimum, officials

recommend that the proposals reflect the new rules that apply GST to cross-border services and intangibles. We therefore recommend the following key design features (along with others listed in Table 1 of Appendix I), all of which are consistent with the existing GST rules for cross-border services and intangibles.

Scope of the rules

Supplies of goods to consumers only

27. We recommend that goods supplied to New Zealand GST-registered businesses (referred to as “business-to-business supplies”) be excluded from the new rules. The rationale for this is to minimise compliance costs for offshore suppliers. If GST was required to be returned by offshore suppliers on these supplies, full tax invoicing requirements would be necessary to address a potential revenue risk.¹ Full tax invoice requirements would place compliance costs on offshore suppliers, which may discourage offshore suppliers from registering for GST.

28. Suppliers currently registered for GST under our cross-border services rules, and who supply both cross-border services and goods, should already have systems in place that differentiate between supplies to consumers and businesses. Therefore, excluding business-to-business supplies may be more readily accepted by offshore suppliers. We note that business-to-business supplies have been excluded under Australia’s rules (applying from 1 July 2018). Consequently, suppliers will already be building systems to comply with those rules.

Ability to zero-rate business-to-business supplies

29. Excluding business-to-business supplies as a default rule should minimise compliance costs for the majority of offshore suppliers. However, some offshore suppliers of goods may have inputs on which New Zealand GST has been charged which they would like to claim back.

30. Under the GST rules for cross-border services, offshore suppliers are able to zero-rate their business-to-business supplies (apply GST at a zero percent rate). This allows them to deduct any New Zealand GST incurred on their inputs to the extent that the relevant inputs are acquired in making supplies to New Zealand. Applying this rule to imported goods would therefore allow offshore suppliers of goods to deduct any New Zealand GST incurred in the same way as resident suppliers and offshore suppliers of cross-border services. This ensures that GST is not a tax on businesses.

31. The reduction in net revenue from this rule is likely to be small as few non-resident businesses incur New Zealand GST-related costs. In addition, some non-resident businesses can already register under current rules to claim back New Zealand GST.

¹ If offshore suppliers were required to return GST on business-to-business supplies, less reputable offshore suppliers may purport to charge GST but not actually return the GST to Inland Revenue. GST-registered New Zealand businesses would then seek to claim the GST back in the normal manner.

Reverse charge for GST-registered businesses

32. A reverse charge allows GST to be accounted for in situations where a GST-registered business purchases goods for non-taxable purposes, such as for private or exempt activities. A “reverse charge” rule would treat the GST-registered recipient of a supply of low-value goods as the supplier of those goods, so that the GST-registered recipient is required to return the GST instead of the offshore supplier. This would only apply where the GST-registered recipient of the goods intends to use the goods other than for making taxable supplies, which would include situations where they use the goods for a private purpose (as opposed to a business purpose) or for making GST-exempt supplies. A similar reverse charge applies to GST-registered recipients of cross-border services.

Exclusion of goods subject to excise tax

33. Because the application of excise tax to alcohol and tobacco products is an important part of New Zealand’s public health policy, we recommend that goods subject to excise tax be exempt from the proposed offshore supplier registration system. GST and excise tax on these goods would instead continue to be collected at the border as at present, consistent with the approach taken in Australia.

Requirements to register

Registration threshold for offshore suppliers – \$60,000

34. We recommend that the proposed rules require offshore suppliers to register and return GST when their total supplies of goods and services to New Zealand exceed or are reasonably expected to exceed \$60,000 in a 12-month period.

35. This registration threshold is equivalent to the domestic registration threshold and the threshold that applies to offshore suppliers of cross-border services, which means that offshore and domestic suppliers making the same level of supplies in New Zealand would receive comparable treatment. Supplies to GST-registered businesses would only be counted towards the \$60,000 registration threshold if the offshore supplier chose to zero-rate the supply.

36. This ensures that the compliance burden associated with the requirement to register and file returns is not imposed on smaller suppliers to the New Zealand market, which could otherwise pose a barrier to trade with New Zealand.

37. The suggested registration threshold is broadly in line with Australia’s new rules, as their domestic GST registration threshold of AU\$75,000 also applies to suppliers of cross-border services and will apply to offshore suppliers of low-value goods.

Special rules for marketplaces and redeliverers

38. In some instances, offshore suppliers do not sell goods to their customers directly via their own marketing and distribution channels, such as their own websites. Instead, they may use an online marketplace to market and sell their goods to consumers. In these situations, it

is proposed that the marketplace would be treated as the supplier and therefore be required to register. This is in line with our current rules for cross-border services.

39. The marketplace is generally in a better position to register and return GST compared with the underlying supplier. Typically, the marketplace would be larger, better resourced and have a closer relationship with the customer. Requiring the marketplace to register may reduce compliance costs, as a potentially large number of suppliers who sell their goods through marketplaces might otherwise be required to register. It may also increase revenue because the marketplace may register on behalf of individual suppliers that would not reach the registration threshold based on their own activity levels, or may not comply with any new rules.

40. Feedback from marketplaces through the consultation process will be important to ensure that the rules do not impose an excessive compliance burden on these businesses. The importance of consultation with this stakeholder group is highlighted by the recent experience in Australia with their new rules.

41. We also propose that similar rules would apply to “redeliverers”. Redeliverers (such as New Zealand Post’s YouShop) are used by consumers when the supplier or marketplace does not offer shipping to New Zealand. The good is instead shipped to an overseas “hub”, which then ships the good to New Zealand. Since the supplier or marketplace in this situation may not know that the final destination of the parcel is in New Zealand, it would be unreasonable to require them to charge GST. Redeliverers would, however, know the final destination of the goods they are “forwarding”. Therefore, it is proposed that redeliverers should be required to register and return GST (if their supplies to New Zealand are above the registration threshold). Australia’s new rules for low-value goods cover both marketplaces and redeliverers.

Simplified registration system

42. To ensure compliance costs are kept to a minimum, we recommend that a simplified “pay only” registration system be available to offshore suppliers. Inland Revenue has already developed such a system for offshore suppliers of cross-border services and it has been well received.

43. Because offshore suppliers that are in a “pay only” position represent a low risk from a revenue perspective, the registration and filing requirements are significantly simplified. It would lower compliance costs for the non-resident supplier and so may encourage some, at the margin, to register. A simplified pay only system will also be available for suppliers required to register in Australia. A pay only system would need to be coupled with the normal domestic registration system so that offshore suppliers who do wish to claim any New Zealand GST they have incurred back may do so.

Enforcement, compliance and penalties

Activities at the border to encourage compliance

44. Offshore supplier registration will rely heavily on voluntary compliance. As these suppliers are based outside New Zealand, enforcing compliance with the rules will require different strategies to those for New Zealand suppliers. The experience with cross-border services has shown that a strategy of making it as easy as possible for offshore suppliers to comply with the rules is likely to help maximise compliance with an offshore supplier registration system.

45. It has also been the experience in other jurisdictions that have implemented similar rules for cross-border services that offshore suppliers have demonstrated a willingness to comply. This is to a large extent because the tax is passed on to the consumer and any cost is administrative only.

46. In the case of large suppliers of goods (including the prominent marketplaces), failure to comply with their tax obligations would pose a significant risk to their reputation. It is thought that for these suppliers, this reputational risk should provide enough incentive to comply with the rules if the system is also designed to minimise compliance costs to suppliers. In the case of smaller suppliers, many of these businesses sell their goods to consumers through marketplaces – therefore the inclusion of marketplace rules should also bolster compliance.

47. We therefore recommend the adoption of a strategy whereby we make it as easy as practicable for offshore suppliers to comply, and wait until the rules are embedded to see what the level of compliance is over time. The Australian experience with their new rules will also be monitored over time. If compliance turns out to be low, further compliance initiatives could be explored, which may include additional information sharing between Customs and Inland Revenue. Officials will also continue to explore alternative compliance measures.

48. New Zealand has agreements with other countries on mutual co-operation, information exchange and assistance in tax matters. These agreements cover an extensive network of jurisdictions, including our major trading partners. The agreements mean New Zealand can request that our treaty partners (that is, foreign tax authorities) provide information about foreign taxpayers and collect unpaid GST on New Zealand's behalf.

Maintaining current risk assessment and biosecurity processes

49. It will be important to ensure that the current rules relating to the provision of information to support risk assessment of goods entering New Zealand remain.

50. While Customs' systems were originally established to support revenue collection, they have evolved over time to provide crucial information to support Customs and the Ministry for Primary Industries to manage border and biosecurity risk. The proposed offshore supplier registration system would ensure the current level of information required for risk management purposes continues to be collected.

Fiscal impact

51. Estimating the expected additional GST revenue under an offshore supplier registration system for low-value goods is difficult. This difficulty is due to data limitations and the number of assumptions required around how many suppliers would be required to register, how many suppliers would continue to supply to the New Zealand market and comply with the rules, and the extent to which price increases (as a result of collecting GST) would reduce consumer demand for low-value imported goods.

52. Given an application date of 1 October 2019, Table 1 below shows the additional GST that may be returned by registered offshore suppliers under an offshore supplier registration system for goods valued at or below \$400.

53. These estimates are based on a conservative foregone GST estimate for the 2016 year of \$79 million for goods imported below the *de minimis* (this is based on a range of data sources). The number of parcels valued at or below \$400 is estimated to be growing at a rate of around 18 percent each year. This growth in volumes is estimated to translate to annual growth in the amount of foregone GST revenue of around 10 percent, taking into account the majority of the growth in volumes is occurring at the lower-value end of the range.

54. Officials have assumed that around 80 percent of the total value of low-value imported goods would be supplied by suppliers that are required to register (above the \$60,000 registration threshold or supplied through a marketplace). Based on this, officials have provided a range of estimates based on assumptions of the percentage of potential GST revenue that may be collected under the rules from suppliers that would be required to register, ranging from 50 to 100 percent.

55. Given a small number of large suppliers (including marketplaces) are likely to supply a significant proportion of total imported low-value goods and the experience with the cross-border services rules, Inland Revenue officials consider it is reasonable to expect to collect 75 percent of the revenue that would be collected if all liable suppliers registered and complied with the rules. This is because, in addition to having a relatively large share of the market, these large suppliers are likely to comply in order to maintain their reputation. However, Customs considers compliance is likely to be lower. This is based on Customs’ experience dealing with offshore suppliers and processing goods for revenue at the border. However, it is noted that the inclusion of marketplace rules is likely to significantly reduce the number of offshore suppliers that would be required to register.

Table 1: Additional GST revenue in \$m that may be returned by registered offshore suppliers on goods valued at or below \$400

Assumed compliance	2019/20 Application at 1 October 2019	2020/21	2021/22	2022/23
50%	35	52	58	65
75%	53	78	87	97
100%	71	103	116	129

56. This revenue could be included in Budget 18 forecasts if Ministers decide now to implement the recommended offshore supplier registration system (approach (b)). However, if Ministers instead decide to consult first before deciding whether to introduce an offshore supplier registration system (approach (a)), revenue would not be included in Budget 18. This is because there would be insufficient certainty at this stage that the offshore supplier registration system would ultimately be implemented. The revenue could however be included at a later date, once a final decision on the proposed offshore supplier registration system has been made.

57. Currently, Customs collect \$3.7 million in cost recovery charges on goods valued at \$400 or below. Cost recovered revenue supports border and biosecurity risk management activities by Customs and the Ministry for Primary Industries. The potential loss in revenue from changing the *de minimis* to \$400 based on the value of the goods imported would require replacement Crown funding.

58. Some \$0.63 million in import duty² is also collected on goods valued between \$226³ and \$400. To the extent this revenue is generated from collecting tariffs, this would be foregone under the proposed change to the *de minimis*.

Administration costs

59. The costs to Inland Revenue of implementing an offshore supplier registration system for low-value imported goods 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, as well as other minor system changes. It also allows for an increase in the volume of work for staff currently processing registrations. An allowance has been made for communicating the change; however, further analysis to determine the best communication approach is required before costs can be finalised. Inland Revenue officials will report back to Ministers on cost implications once final policy decisions are made.

60. Customs has conducted a review of the administrative process surrounding the collection of revenue on imported goods and considers there will be negligible cost savings to Customs as a result of an offshore supplier registration system for goods valued at or below \$400. This is because in the fast freight stream revenue assessment and collection is undertaken by courier companies rather than by Customs.

61. In the postal stream Customs manually collects the revenue. Customs incurs costs in preparing Personal Import Declarations, as well as invoices which would still be required for goods that attract excise. This manual process is expected to become more automated in the next few years as Customs works with New Zealand Post to improve the availability and use of electronic advance data.

² Tariffs plus GST on the amount of the tariff revenue.

³ A value of \$226 is equivalent to the current duty-owing *de minimis* of \$60 if the goods attract tariffs at the rate of 10%.

Next steps

62. Subject to Ministers' agreement on the approach to take, the design features of an offshore supplier registration system outlined in Table 1 of Appendix I would be included in a discussion document for public consultation. Following Ministers' direction on the proposed release date, we can provide you with a draft Cabinet paper and discussion document for your consideration, if required.

APPENDIX I

Table 1: Recommended rules for an offshore supplier registration system

<i>Scope of the rules</i>	Require offshore suppliers to return GST on supplies of goods to consumers. Goods supplied to GST-registered businesses would be excluded unless the offshore supplier decided to zero-rate the supply (this would allow offshore suppliers to claim costs associated with business-to-business supplies).
	A reverse charge (that is, where the recipient of the goods accounts for the GST) would apply to GST-registered recipients that use goods for non-taxable purposes (such as private purposes).
	Offshore suppliers would not be required to return GST on supplies of goods subject to excise tax (that is, alcohol and tobacco products). GST and excise tax on these goods would instead be collected at the border, as at present.
<i>Requirements to register</i>	Require offshore suppliers to register if their total supplies of goods and services to New Zealand exceeds \$60,000 per annum.
	Require marketplaces and “redeliverers” that supply goods to New Zealand consumers to register and return GST.
	Provide for a simplified “pay only” registration system to minimise compliance costs.
<i>Filing periods</i>	Require quarterly filing for offshore suppliers.
<i>Enforcement, compliance and penalties</i>	Rely on voluntary compliance with the rules. However, we will continue to explore alternative compliance measures.
	Apply the existing penalties under tax legislation to consumers that falsely represent themselves as a business to avoid GST. The maximum fine a court could impose is \$25,000 for a first time offender or \$50,000 for a repeat offender.
	For the most egregious of cases, provide Inland Revenue with discretion to require a consumer to register and pay the GST that should have been returned.
<i>Maintaining current risk assessment and biosecurity processes</i>	Importers will still be required to provide the current level of entry information to Customs and the Ministry for Primary Industries to support effective risk and biosecurity assessment.

APPENDIX II

Between point of sale and delivery (the “extended status quo” option)

1. Under this option, the logistics industry (fast freight couriers and New Zealand Post) would collect revenue on the low-value goods they deliver. There are a number of ways that courier companies (and, in the future, New Zealand Post) could potentially collect GST, including incorporation of the amount of the tax into their freight charges, through to holding goods pending payment of invoices sent to customers (as at present).

2. Although courier companies are not legally required to collect GST, tariff duty and cost recovery charges on imported goods above the *de minimis*, they currently play a large role in revenue collection on behalf of the Government for commercial reasons and as a service to their customers. By contrast, revenue is not collected in this way in the postal stream as existing international postal systems do not provide for the collection and use of electronic advance data on imported goods. Due to the lack of data in the postal stream, it is not possible at this time to implement an option that would place a legal liability on the logistics industry to collect GST on imported goods. Therefore, any move to utilise the logistics industry in the collection of GST would revert to the status quo (where courier companies voluntarily collect GST in the fast freight stream as outlined above, but New Zealand Post does not collect GST at all).

3. Unlike the offshore supplier registration model, this option would require a threshold below which GST is not collected at all on lower-value goods, as the marginal costs of collection would exceed the marginal revenue collected.

4. The potential for this option to collect additional revenue and level the playing field between domestic and offshore suppliers depends on how low the *de minimis* could be feasibly set. Feedback from the logistics industry suggests that, at this time, significantly lowering the *de minimis* under this option would significantly increase costs and result in delivery delays.

5. A number of initiatives are underway that would generate efficiencies in the clearance of goods and reduce costs to the logistics industry under an extended status quo. While some estimate these improvements may be realised as early as 2020, more conservative estimates suggest they will likely occur in 2023. The magnitude of any resulting reduction to the *de minimis* is uncertain; however, initiatives such as electronic advance data may see the *de minimis* eventually lowered to near zero, potentially resulting in nearly all GST on low-value goods being collected.

After delivery of the goods

6. A pay after delivery model places responsibility on the recipient or purchaser (that is, the final consumer) to pay the GST on the goods they have imported. Payment would occur after the delivery of the goods.

7. Pay after delivery shifts almost all of the compliance costs associated with levying GST on low-value goods onto consumers. The individual cost for each consumer may be relatively low; however, these costs would be imposed on a large group. In addition, payment after consumers have received their goods may result in high levels of non-compliance, requiring government to implement enforcement measures.

8. For these reasons, officials consider pay after delivery is unlikely to be a viable option for the foreseeable future.

