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Office of the Minister of Finance
Office of the Minister of Revenue
Office of the Minister of Customs

Chair, Cabinet Economic Development Committee

GST on low-value imported goods: An offshore supplier registration system

Proposal

1 This paper seeks the Cabinet Economic Development Committee's (the Committee) agreement to implement an offshore supplier registration system for collecting Goods and Services Tax (GST) on imported goods valued at or below $400. This paper also seeks the Committee's agreement to release the discussion document, *GST on low-value imported goods: An offshore supplier registration system.* The discussion document:

- seeks submissions on the key design features of an offshore supplier registration system for collecting GST on low-value imported goods valued at or below $400; and

- proposes to remove tariffs and cost recovery charges on goods valued at or below $400.

2 The proposed rules would apply from 1 October 2019. A draft copy of the discussion document is attached to this paper.

Executive Summary

3 Currently, GST is not collected on imported goods below the *de minimis* of $60 duty-owed (generally equivalent to goods below the value of $400).[1] The growth of online shopping has meant that the amount of foregone GST on imported low-value goods is becoming significant – estimated to be around $80 million in 2016. The non-collection of GST on imported goods below the *de minimis* also means domestic businesses are at an unfair disadvantage compared with offshore businesses supplying products with no GST added to the price of goods.

4 This paper seeks the Committee's agreement to:

- implement an offshore supplier registration system for collecting GST on imported goods valued at or below $400;

- release the discussion document, *GST on low-value imported goods: An offshore supplier registration system*; and

- offset the revenue impacts from this proposal against Budget 2018 allowances.

1 The value of goods on which GST will be collected can be as low as $226 when tariffs are also payable.

5 The discussion document seeks public submissions on the detailed design features of a requirement for offshore suppliers to register and return GST on goods valued at or below $400 supplied to New Zealand consumers.

6 The existing collection of GST by the New Zealand Customs Service (Customs) between the *de minimis* and $400 would be replaced with collection by offshore suppliers.

7 Goods subject to excise tax (such as alcohol and tobacco products) will be exempt from the proposed offshore supplier registration system as the application of excise tax is an important part of New Zealand's public health policy. GST and excise tax on these goods will instead continue to be collected at the border as at present.

8 The proposal will mean that tariffs and border processing charges (up to $0.63 million and $3.2 million respectively) would no longer be collected on goods valued at or below $400. Removing the need to collect these costs at the border will simplify processes, so that there are fewer costs and administrative requirements for transporters, consumers, and border agencies.

9 Since border processing charges fund risk and biosecurity activities by Customs and the Ministry for Primary Industries, alternative funding will be required for these activities. We propose this alternative funding be provided through additional Crown funding in agency baselines which would also allow for anticipated changes in the volume of low-value goods crossing the border.

10 The key design features that will be consulted on in the discussion document include:

- The rules would only apply to supplies of goods to New Zealand consumers (supplies to New Zealand businesses will be excluded).
- Offshore suppliers would only be required to register and return GST if their total supplies of goods and services to New Zealand exceeds $60,000 per annum.
- Offshore marketplaces and re-deliverers[2] would be required to register and return GST if they meet the registration threshold.
- The existing border processes to collect GST, tariffs and cost recovery charges on imports above $400 will remain unchanged.
- A simplified 'pay only' registration system is proposed to minimise compliance costs for offshore suppliers.

11 To support compliance we recommend the adoption of a strategy whereby we make it as easy as practicable for offshore suppliers to comply. Officials will also explore compliance measures such as additional information sharing between Inland Revenue and Customs, as well as the use of bilateral and multilateral agreements with other countries for mutual collection assistance. Overall levels of compliance will be reviewed once the rules are embedded, and additional compliance measures considered as necessary.

12 The proposed rules are consistent with the new rules to collect GST on cross-border services introduced on 1 October 2016. These rules are working better than expected,

2 "Re-deliverers" are sometimes used by consumers when the supplier or marketplace does not offer shipping to New Zealand. The good is instead shipped to an overseas "hub" or mailbox, which then ships the good to New Zealand.

collecting more than twice the amount of GST than was originally forecast. The proposed rules are also consistent with the new rules for low-value imported goods introduced in Australia which apply from 1 July 2018.

13 While under an offshore supplier registration system revenue may no longer be collected at the border by Customs on goods valued under $400, it is proposed that border agencies will continue to collect information on these goods to support effective risk management at the border.

14 It is estimated that additional GST revenue from the offshore supplier registration system will be $53 million in the 2019/20 fiscal year, increasing to $87 million in the 2021/22 fiscal year. The Committee's agreement to the proposal will allow the revenue forecasts to be included in Budget 18.

Background

15 New Zealand's GST is a broad-based consumption tax with few exemptions. This ensures that GST is fair, simple and efficient. The GST system is based on the destination principle, meaning that goods and services are subject to GST when they are consumed in New Zealand. This means that, in principle, GST should be applied to all imported goods, regardless of value.

16 Customs collects revenue (GST, tariff duty, import entry fees charges and biosecurity levies) on imported goods where $60 or more of total duty (including GST) applies. This threshold is known as the *de minimis*. The $60 of total duty in most cases equates to a parcel valued at $400. However, the value of a parcel on which revenue is collected could be as low as $226, depending on whether tariffs are payable.

17 The rationale behind the *de minimis* was 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. International obligations require the setting of a *de minimis* at which duties are payable on imported goods.

18 The growth of e-commerce and the practice of supplying goods directly to customers have meant that the volume of low-value goods imported by final consumers has significantly increased. In general, the growing ability to easily purchase goods online has benefited New Zealand. It has given consumers greater access to a wider range of goods from around the world and has increased competition in the domestic retail market. However, given the nature of the current methods of collecting GST on imported goods, the growing volume has meant the total cost of collecting GST on these goods, and the GST revenue foregone, have both increased.

19 Officials estimate that in 2016 around $80 million of GST was foregone as a result of the *de minimis*. The foregone revenue is expected to grow at around 10 per cent per annum. The current tax settings place domestic businesses at an unfair disadvantage compared with offshore businesses supplying products with no GST added to the price.

20 In January 2018 the Government referred the issue of the non-collection of GST on imported goods below the *de minimis* to the Tax Working Group. The Group reported back to the Ministers of Finance, Revenue and Customs in late February 2018.

21 Three alternative collection mechanisms were assessed by the Tax Working Group:

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

22 The Tax Working Group noted there are practical concerns with the options to collect the GST between the point of sale and delivery and after delivery which mean they may not be feasible in the short term. As such the Group has recommended the Government implement an offshore supplier registration system for collecting GST on imported goods valued at or below $400. The Group considers that an offshore supplier registration system would provide a cost-effective way of collecting GST that would also provide price certainty and low compliance costs for consumers.

23 The Tax Working Group also recommended that options to collect GST on low-value imported goods between the point of sale and delivery and after delivery continue to be reviewed following implementation of an offshore supplier registration system to see if the feasibility issues with these options can be overcome.

Comment

24 We agree with the Tax Working Group's recommendation and consider that collection at the point of sale is the most efficient method of collecting GST on low-value imported goods, as well as being the only feasible method in the short term. This is in line with the approach adopted in Australia. While the collection costs would be borne by offshore suppliers, this method is consistent with the collection of GST on domestic sales.

25 The offshore supplier registration model is also consistent with the recent rules to collect GST on cross-border services, such as internet downloads and streaming services. These rules came into force on 1 October 2016 and are working well. So far revenue collections have exceeded expectations; in the first twelve months offshore suppliers returned $113 million, compared to the $40 million forecast. Australia will also require offshore suppliers to return GST on low-value imported goods from 1 July 2018.

26 Under an industry-led option with a lower *de minimis*, courier companies and New Zealand Post would struggle to process the high volumes of low-value goods for revenue collection using existing systems. Significant investment in infrastructure and staffing would be required and consumers may experience delays in receiving their goods.

27 The pay after delivery option would shift collection costs to a large group of consumers, and since this option does not carry 'no payment, no goods' leverage, there may be significant issues with compliance.

28 This paper therefore seeks the Committee's agreement to implement an offshore supplier registration system to collect GST on imported goods valued at or below $400. We recommend that officials from Inland Revenue and Customs review the level of the proposed $400 threshold three years after the implementation of the offshore supplier registration system to assess whether it could be set at a higher level. We also recommend that officials from the Treasury, Inland Revenue and Customs follow the Tax

Working Group's recommendation and continue to monitor the future viability of other options to collect GST on low-value imported goods after implementation of the offshore supplier registration system.

29 This paper also seeks the Committee's agreement to release the discussion document, *GST on low-value imported goods: An offshore supplier registration system*. The discussion document seeks submissions on the key design features of an offshore supplier registration system for collecting GST on low-value imported goods valued at or below $400.

30 An offshore supplier registration system applies a different approach to collecting GST on imported low-value goods. The system is still based on the destination principle; however, instead of GST being collected at the border, offshore suppliers are required to return GST on all goods valued at or below $400 if their total supplies of goods and services to New Zealand exceed $60,000 per annum.

31 The current duty-owed *de minimis* for collection by Customs at the border would be replaced with a *de minimis* of $400 based on the value of the goods. This will 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 as cost recovery charges and tariff duty will no longer be collected on goods valued at or below $400. There would also be a minor reduction in administrative costs for Customs.

32 We do not propose any changes to the current rules or processes for imported goods valued above $400. Above $400 Customs has existing processes to collect GST on imported goods (along with cost recovery charges and tariffs).

33 New Zealand is required to have a *de minimis* to comply with international obligations.[3] Officials consider the proposal is consistent with this obligation since revenue collection procedures at the border will not apply to goods valued at or below $400.

34 Examples of how the proposals will affect consumers are provided below:

Example one: Below the current de minimis

Current

Sophie buys a t-shirt for $50 (shipping included) from a popular US-based clothing website. Sophie lives in New Zealand and requests that the t-shirt is delivered to her home address, in Wellington. The supplier is a large business that supplies more than $60,000 of goods to New Zealand a year. Since GST on the t-shirt is below the *de minimis* threshold, Customs will not require Sophie to pay any GST, tariffs or border charges.

Proposed

Under the new rules, GST would be charged by the supplier to Sophie at the point of sale and returned to Inland Revenue. The cost of the t-shirt to Sophie will therefore increase by $7.50 to $57.50 (including GST).

3 Protocol of Amendment to the International Convention on the Simplification and Harmonization of Customs Procedures.

Example two: Above the current de minimis ***Current*** If Sophie had purchased a $250 jacket (shipping included) from the US-based clothing website, under current rules Customs would stop the parcel at the border and require Sophie to pay GST, tariffs and cost recovery charges on the jacket. The total cost of the jacket to Sophie would be $365.49 ($250 jacket + $25 tariff (10% x $250) + $41.25 GST (15% x $275) + $49.24 cost recovery charge). ***Proposed*** Under the new rules, GST would be charged by the supplier to Sophie at the point of sale and returned to Inland Revenue. Sophie's jacket would not be subject to any tariffs or cost recovery charges at the border. The total value of Sophie's parcel would be $287.50 ($250 jacket + $37.50 GST).

35 The examples demonstrate that while the cost of importing low-value goods below the current *de minimis* will increase by 15 per cent, the cost of importing low-value goods between the *de minimis* and $400 will reduce. The cost of importing goods valued above $400 will be unaffected.

Key design features of the offshore supplier registration system

36 The discussion document proposes to keep the design of an offshore supplier registration system consistent with the system that applies to cross-border services. This will ensure that compliance costs are kept to a minimum, particularly for those offshore suppliers that supply both cross-border services and goods. This approach has been adopted in Australia.

37 The table below summarises the key design elements of the proposed offshore supplier registration system for low-value imported goods:

Scope of the rules	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). From a revenue perspective, there is little value in applying GST to business-to-business supplies. This is because GST-registered New Zealand businesses can generally claim back any GST they incur. Excluding business-to-business supplies would reduce the number of offshore suppliers that would be required to register (as many suppliers may only supply to GST-registered businesses), and therefore would reduce compliance costs.
	Require offshore suppliers to charge GST unless the recipient identified themselves as a GST-registered business or provided their GST registration number or New Zealand Business Number.

	GST-registered recipients that purchase imported goods valued at or below $400 will be required to pay the GST on those goods to Inland Revenue if they use those goods for non-taxable purposes (such as private purposes).
	Goods subject to excise tax such as alcohol and tobacco products will be exempt from the proposed offshore supplier registration system as the application of excise tax is an important part of New Zealand's public health policy. GST and excise tax on these goods will instead continue to be collected at the border as at present.
Requirements to register	Require offshore suppliers to register if their total supplies of goods and services to New Zealand exceed $60,000 per annum. 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.
	Require marketplaces and re-deliverers that supply goods to New Zealand consumers to register and return GST. Marketplaces are generally in a better position to register and return GST compared with underlying suppliers. 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. Re-deliverers (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. Re-deliverers should, however, know the final destination of the goods they are forwarding. Therefore, it is proposed that re-deliverers should be required to register and return GST.
	Provide for a simplified 'pay only' registration system to minimise compliance costs. Because the majority of offshore suppliers will only return GST (as opposed to claiming it back on inputs), they represent a low risk from a revenue perspective; registration and filing requirements can therefore be significantly simplified. This

	would lower compliance costs for offshore suppliers and may encourage some, at the margin, to register.
Filing periods	Require quarterly filing for offshore suppliers. Currently, domestic suppliers must file GST returns on a 1-monthly, 2-monthly or 6-monthly basis, depending on turnover level. However, during consultation for the new cross-border services rules, offshore suppliers expressed a preference for quarterly GST returns, which would align with their filing obligations in other countries.
Enforcement, compliance and penalties	The rules would primarily rely on voluntary compliance. Because 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. It is expected that most large suppliers will comply with these rules due to reputational risk. Many smaller suppliers sell their goods to consumers through marketplaces – therefore the inclusion of marketplace rules should also bolster compliance. We 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. However, in the meantime my officials will continue to explore alternative compliance measures, such as: • data sharing between Inland Revenue and Customs to facilitate border compliance activities; and • joint compliance initiatives between New Zealand and Australia. • the use of bilateral and multilateral agreements for mutual collection assistance.
	Apply the existing penalties under tax legislation to New Zealand 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.

Maintaining effective border risk management	Requirements to provide information to support effective border risk management, such as tariff codes, product descriptions and information to enable the identification of the origin of the goods, will not change.

Impact on border risk management

38 The Government is committed to maintaining effective border risk management. While revenue may no longer be collected at the border on goods valued under $400, it is proposed that border agencies will continue to collect information to support effective risk management at the border.

39 Access to adequate, quality and timely information on specific consignments (for example, tariff codes and supplier origin information) underpins the Ministry for Primary Industries' and Customs' abilities to provide cost-effective border protection. This data enables agencies to manage risk before consignments arrive at New Zealand's border, resulting in lower costs. This is due to the reduced need for resource intensive physical inspections and processing. As a result consumers should get their goods faster. Any reduction in the quality of information provided with respect to imported goods could impact on the quality of the Ministry for Primary Industries' and Customs' border risk management and the speed of processing goods through the border.

40 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. As mentioned previously, data sharing with Inland Revenue is also being considered which should already be facilitated through measures in new customs and excise legislation.

Financial Implications

41 The proposals will have implications for the collection of cost recovery charges and tariffs on goods above the current *de minimis* but below the value of $400, and for the collection of GST on goods below $400.

Tariffs

42 Tariff duty is charged at the rate of 5 or 10 percent on some types of goods (e.g. clothes and shoes) above the *de minimis*, depending on their country of origin. Total tariff revenue across all imported goods equates to approximately $120 million with tariff revenue on goods valued at or below $400 amounting to about $0.63 million.

43 It is unlikely that offshore suppliers would be willing to collect tariffs. During the development of the cross-border services rules, offshore suppliers indicated that, while they would generally accept the obligation to return GST, they would be less likely to comply with this obligation if they were also required to collect additional amounts for the New Zealand Government. Consequently, asking offshore suppliers to collect tariffs may significantly compromise compliance with GST, and New Zealand would be out of step with Australia. As a consequence, tariffs will not be collected on goods valued at or below $400.

44 The Ministry of Foreign Affairs and Trade's view is that foregoing tariffs at the estimated amount of $0.63 million will not have an impact [38] in free trade agreement negotiations with trade partners.

Cost recovery charges

45 Customs charges an Import Entry Transaction Fee of $29.26 and the Ministry for Primary Industries' $19.98 Biosecurity System Entry Levy (total charges of $49.24 inclusive of GST) on goods that require an import entry. Currently, Customs and the Ministry for Primary Industries collect $3.2 million (for the 2016 calendar year) in cost recovery charges on goods below $400. Cost recovery charges are used to fund Customs' and the Ministry for Primary Industries' risk and biosecurity activities at the border. The reduction in funding could not be covered by baselines.

46 For the same reasons as outlined above, it is unlikely that offshore suppliers will collect charges and compliance may be compromised if they were asked to do so. We therefore seek agreement in principle to additional Crown funding to replace the lost revenue that would otherwise have been received from cost recovery on low-value goods below $400. Volumes of low-value goods are currently increasing at a rate of 18 percent per annum, so we also expect the upward pressure on costs to continue over time, which will require regular and/or flexible baseline increases. These costs could be offset by the expected increase in GST collected, removing any impact on the Budget allowances. Consideration will also be given to any cost savings resulting from no longer being required to collect GST, tariffs and charges below $400.

47 Subject to consultation and final policy recommendations, the Minister for Biosecurity and the Minister of Customs will return to Cabinet to seek agreement to Crown funding for the costs of clearing low-value imported goods.

Current collection of GST between the de minimis and $400

48 Customs currently collects a small amount of GST between the *de minimis* and $400 from goods supplied to consumers. Some of this GST may be foregone under the proposal. This is because suppliers would only be required to register and return GST if they supplied more than $60,000 of goods and services to New Zealand. Suppliers with a lower turnover would not be required to register and return GST.

49 GST revenue would also be foregone when suppliers do not comply with the rules. Since no country has yet implemented an offshore supplier registration system for goods, the likely level of compliance with such a system is still uncertain. However, the success of the cross-border services rules is an encouraging sign.

Estimates of revenue collection

50 Estimating the expected additional GST revenue is difficult due to data limitations and the number of assumptions required around how many suppliers would be required to register and how many suppliers would comply with the rules.

51 Officials have assumed that around 80 per cent of the total value of low-value goods will be supplied by suppliers that are required to register (above the $60,000 registration threshold or supplied by a marketplace).

52 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, the Treasury and Inland Revenue officials consider that a 75 per cent compliance rate is reasonable.[4] 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.

53 Given an application date of 1 October 2019, estimates of additional GST revenue are shown in Table 1 below. These estimates are based on a conservative foregone revenue estimate for the 2016 year of approximately $80 million for goods imported below the *de minimis* (this is based on a range of data sources), and a 75 per cent compliance rate.

Table 1	$m – increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22& out years**
Tax Revenue: GST	-	-	53.000	78.000	87.000
Total revenue impact	-	-	53.000	78.000	87.000

NB: The forecast additional revenue is based on the assumptions that the total value of goods under the current *de minimis* grows at 10% per annum.

54 Note that since offshore suppliers will likely be reluctant to collect tariffs and border processing charges, approximately $0.63 million in tariffs and $3.2 million[5] in charges will be foregone under the proposal (these costs are not factored in the table above).

55 The Committee's agreement to implement an offshore supplier registration system will allow the above revenue forecasts to be included in Budget 18.

Administrative implications

56 Implementing an offshore supplier registration system is estimated to cost up to $460,000 for Inland Revenue. An updated administrative cost will be provided once proposals are finalised. Inland Revenue expects to fund these costs through existing appropriations.

4 The compliance rate is based on the level of collection of GST on goods supplied by suppliers required to register.
5 Based on 2016 calendar year data.

Human Rights

57 We consider that the proposals contained in the discussion document are not inconsistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Legislative Implications

58 The release of the discussion document will not give rise to any immediate legislative implications. However, legislative changes will be necessary to implement the proposals. We intend to propose a bill be included on the Cabinet Legislative Programme for introduction in late 2018.

59 To allow for the legislative process and to give offshore suppliers time to comply with the rules, it is proposed that the rules apply from 1 October 2019.

Regulatory impact analysis

60 The Regulatory Quality Team at the Treasury agrees that no separate Regulatory Impact Assessment is required in support of the proposal to issue a discussion document, since the analysis necessary at this stage is covered in the document itself.

Consultation

Agency comments

61 Officials have consulted with the Ministry of Foreign Affairs and Trade, the Ministry for Primary Industries, and the Ministry of Business, Innovation and Employment. The Department of the Prime Minister and Cabinet has been informed.

62 The Ministry of Business, Innovation and Employment has provided the following comment:

62.1 Subject to the results of public consultation on this issue, The Ministry of Business, Innovation and Employment is broadly supportive of the proposal to adopt an offshore supplier registration system for the collection of GST from foreign retailers, in an effort to ensure competitive neutrality.

62.2 The Ministry of Business, Innovation and Employment nevertheless holds some concerns that adding GST to imported goods below the current *de minimis* would increase the cost of those goods, and as a result reduce competition on domestic retailers, and is concerned that the impact on consumers will be all the greater given the low levels of competition currently present in the domestic retail market.

62.3 While it acknowledges that the proposal to exempt such goods from tariffs and other border fees would offset this to some extent, the Ministry of Business, Innovation and Employment considers that goods between $400 and $1,000 should also be exempted from tariffs and cost recovery charges. Apart from further offsetting the negative impact on consumer welfare, setting the tariff concession threshold at $1,000 would align with the Customs definition of "low-value goods". The tariff revenue that would be foregone by extending the concession up to $1,000 would be minimal and while tariffs generally have value [38] to secure free trade agreements, the Ministry of Foreign

Affairs and Trade has previously agreed that removing tariffs under this threshold would not impair New Zealand's ability to negotiate trade deals. We also note that Australia has had a tariff concession for low-value goods under AU$1,000 in place for some time.

62.4 The Ministry of Business, Innovation and Employment considers there is no practical connection between the GST collection threshold of $400 and the tariff concession threshold, or any reason why the thresholds have to be the same, and removing these costs would reduce the consumer and competition impacts of the proposals. We note that a threshold of $1,000 would result in consumers who import goods just under the $1,000 threshold paying less tax than they would under the status quo because of the new tariff concession, whereas consumers importing very low value goods would end up paying more tax, due to the introduction of GST.

Zero-rating all business-to-business imported goods

63 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.

64 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.

Public consultation

65 Public consultation will be open for a period of 8 weeks from the date of the discussion document's release.

66 Officials will prepare an engagement plan and work closely with key stakeholders following the release of the discussion document to ensure the proposed rules are workable in practice.

67 Following consultation, it is expected that final policy recommendations will be presented to Cabinet in the second half of 2018.

Publicity

68 We propose to issue a press release to accompany the discussion document. The press release will notify anyone that was planning to make a submission to the Tax Working Group on this issue to instead make a submission on the discussion document.

Recommendations

The Ministers of Finance, Revenue and Customs recommend that the Committee:

1 **Note** that the Government is foregoing an estimated $80 million GST (in 2016) on imported goods below the *de minimis* and this amount is likely to increase in the future;

2 **Note** that the Tax Working Group, Customs, Inland Revenue, and the Treasury assessed three alternative collection systems:

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

3 **Note** that the Tax Working Group has recommended:

- the Government implement an offshore supplier registration system for collecting GST on imported goods valued at or below $400; and
- the future viability of options to collect GST on low-value imported goods between the point of sale and delivery and after delivery continue to be reviewed following implementation of an offshore supplier registration system;

4 **Note** that we consider offshore supplier registration to be the most efficient way of collecting the foregone GST revenue;

5 **Agree** to implement an offshore supplier registration system for collecting GST on imported goods valued at or below $400;

6 **Note** that officials from Inland Revenue and Customs will review the level of the $400 threshold three years after the implementation of the offshore supplier registration system;

7 **Note** that officials from the Treasury, Inland Revenue and Customs will continue to monitor the future viability of other options for collecting GST on low-value imported goods following implementation of an offshore supplier registration system;

8 **Agree** to change the current duty-owed *de minimis* of $60 to a *de minimis* of $400 based on the value of the goods once the offshore supplier registration system is implemented;

9 **Agree** to release the discussion document *GST on low-value imported goods: An offshore supplier registration system* which consults on the detailed design of a system that:

- requires offshore suppliers to collect GST on low-value imported goods valued at or below $400; and
- removes tariffs and cost recovery charges on imported goods valued at or below $400;

10 **Note** the fiscal costs of the system outlined in the discussion document which consist of $0.63 million in lost tariffs and $3.2 million in lost cost recovery charges;

11 **Agree** in principle that Crown funding will replace Customs' and the Ministry for Primary Industries' lost cost recovery revenue (taking into account any potential cost savings in administration) and that funding continue to be adjusted as volumes change, consistent with the current cost recovery regime;

12 **Note** that information currently collected by the Ministry for Primary Industries and Customs will continue to be required in respect of low-value imported goods so that border risk management continues to be effective and efficient;

13 **Note** the estimate of the GST revenue impacts of this proposal is as follows:

	$m – increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22& out years**
Tax Revenue: GST	-	-	53.000	78.000	87.000
Total revenue effect	-	-	53.000	78.000	87.000

14 **Agree** that the revenue impacts indicated in recommendation 12 above be offset against Budget 2018 allowances.

15 **Agree** to delegate authority to the Minister of Finance, the Minister of Revenue, and the Minister of Customs to make minor editorial changes to the discussion document and to agree on an engagement plan.

16 **Agree** to delegate authority to the Minister of Finance, the Minister of Revenue, and the Minister of Customs to extend the implementation date of the offshore supplier registration system to a later date, if required.

Authorised for lodgement

Hon Grant Robertson
Minister of Finance

Hon Stuart Nash
Minister of Revenue

Hon Meka Whaitiri
Minister of Customs