



Tax Working Group
Te Awheawhe Tāke

Tax Working Group Information Release

Release Document

September 2018

taxworkinggroup.govt.nz/key-documents

This paper contains advice that has been prepared by the Tax Working Group Secretariat for consideration by the Tax Working Group.

The advice represents the preliminary views of the Secretariat and does not necessarily represent the views of the Group or the Government.

Officials' background note on GST and low-value imported goods

Executive Summary

If an offshore supplier registration system were to be introduced, Treasury, IRD and Customs officials favour an approach that requires offshore suppliers to return GST on goods valued at or below \$400, instead of referring to the current *de minimis* of \$60 of "duty". This is because such an approach would make it easier for offshore suppliers to comply.

For goods valued at or below \$400, there would be no additional handling for revenue collection purposes. Subject to the goods passing through Customs' and the Ministry for Primary Industries' screening processes for biosecurity and other border risks, the goods would be delivered and Customs would not charge a border processing fee.

If the *de minimis* instead continued to be based on \$60 of "duty", offshore suppliers would have to determine whether or not goods they supply attract tariffs. This would require knowledge of the country of the goods' origin, as well as the applicable tariff rate for the specific product type and country of manufacture. If GST plus the amount of tariffs and other duties exceeds \$60, Customs would collect the GST and other duties at the border (as at present). The offshore supplier would not be required to return GST, but would instead return GST on supplies of goods to New Zealand that attract less than \$60 duty.

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The Tax Working Group will release its interim report containing its recommendations in September and the views of the Group will be informed by public submissions alongside Secretariat advice.

Discussion

What are “low-value” goods?

“Low-value imported goods” refers to imported goods with a value of \$1,000 or less. Currently, \$1,000 is the threshold where importers are required to submit full import documentation, whereas simplified entry and documentation requirements are in place for imported goods valued below \$1,000.

What is the current Customs *de minimis*?

The current *de minimis* is based on \$60 of “duty”, rather than on the value of the goods being imported. “Duty” includes GST, tariffs, a range of small levies and excise tax¹. However, it does not include cost recovery charges for Customs and the Ministry for Primary Industries.

A duty-based *de minimis* of \$60 means that GST and cost recovery charges (as well as tariffs and other levies, if applicable) are collected on an imported consignment if the total amount of duty is \$60 or more. This equates to a good’s value of \$400 when GST is the only duty owing, but the value of the goods could be as low as \$226 if tariff duty also applies². However, only certain types of goods are subject to tariffs, and the applicable tariff rate depends on both the product type and the country of manufacture. Commonly, where the country of origin is a country that New Zealand has a free trade agreement with, the applicable tariff rate is zero. Hence, in most instances the effective threshold that applies (based on a good’s value) is \$400.

Example 1

Melissa purchases active wear from a large offshore website. She pays \$100 (inclusive of shipping). Apparel attracts a 10 percent tariff duty where New Zealand does not have a free trade agreement with the country of the goods’ origin. Since the duty on the clothing is only \$26.50 (comprising tariff duty of \$10 ($\100×10 percent) and \$16.50 of GST ($\110×15 percent)), Melissa’s purchase is below the current *de minimis* so no duty is paid to Customs.

The total cost of Melissa’s parcel is \$100.

Melissa later purchases a pair of running shoes from the same offshore website with a value of \$300 (inclusive of shipping). Footwear also attracts a 10 percent tariff duty. This means the total duty owing on Melissa’s running shoes is \$79.50 (the 10 percent tariff of \$30 plus the GST amount of \$49.50). This is above the current *de minimis*. Melissa is required to pay GST and tariff duty on the running shoes. Melissa will also have to pay the cost recovery charges of \$49.24 to Customs.

The total cost of Melissa’s parcel is \$428.74.

¹ The *de minimis* does not apply to goods subject to excise tax, such as alcohol and tobacco. These products would therefore be excluded from the scope of an offshore supplier registration system, so that GST and other duties on these products continue to be collected at the border, as at present.

² Smaller levies are very rarely collected on goods valued at or below \$1,000, so in almost 100% of instances the goods would have a value of at least \$226 before GST and other duties are collected.

**Why suggest a \$400 threshold for an offshore supplier registration system?
Why not have offshore supplier registration below the current *de minimis* instead?**

As stated above, the current *de minimis* generally equates to a good's value of \$400. However, this is only the case if GST is the only duty owing; the minimum value of a good on which duty is collected also depends on whether or not tariffs apply.

Tariffs currently apply to certain product types (most commonly shoes and clothing). However, as a result of free trade agreements, a 10 percent tariff on shoes and apparel manufactured in one country may be zero or a rate less than 10 percent if they were instead manufactured in a different country. Requiring offshore suppliers to return GST on supplies of goods below the current duty-based *de minimis* would therefore require offshore suppliers to have knowledge of the country where the goods were manufactured and the applicable tariff rate for the specific product type and the country of the goods' origin (which is often not the same as the country of export that the supplier is resident in).

Tariff duty calculations are difficult to automate and thus can impose a significant compliance cost on those calculating and collecting duty, particularly at high goods volumes. This compliance cost is the primary reason why the *de minimis* is set at the current threshold. Below this threshold volumes of goods and compliance costs associated with calculating and collecting duty increase considerably.

Our experience with the GST on cross-border services rules has shown that making it as easy as possible for offshore suppliers to comply with the law (by designing the rules to be simple) can result in high levels of voluntary compliance. Therefore, to make it as easy as possible for offshore suppliers to get it right, the *de minimis* could instead be changed to \$400 based on the value of the goods, which is in most cases equivalent to the current *de minimis*.

Inland Revenue, Customs and Treasury officials all agree that changing to a *de minimis* based solely on a specific value of goods is a desirable simplification that would provide greater price certainty for consumers importing low-value goods. Any loss of duty (other than GST) and cost recovery charges currently collected on goods valued between \$226 and \$400 (where duty is sometimes payable) would be small.

Example 2 – goods below the current *de minimis*

Current outcome

Sophie buys a t-shirt for \$50 (shipping included) from a 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 (and tariff duty) on the t-shirt is below the *de minimis* threshold, Customs will not require Sophie to pay any GST (or tariffs).

The total cost of Sophie's parcel would be \$50.

Outcome with offshore supplier registration at or below a \$400 threshold

Under an offshore supplier registration system for goods valued at or below \$400, the US supplier would be required to charge GST on the t-shirt. GST would be included in the purchase price and charged to Sophie at the point of sale. The tariff duty would not be collected.

The total cost of Sophie's parcel would be \$57.50 (\$50 t-shirt + \$7.50 GST (15% x \$50)).

Example 3 – goods above the current *de minimis*

Current treatment

Consider Melissa in Example 1 and her \$300 running shoes purchased from a large offshore website. Under the current rules, Customs would stop her parcel at the border for assessment and require Melissa to pay GST, tariffs and cost recovery charges on the shoes.

The total cost of Melissa's parcel would be \$428.74 (\$300 shoes + \$30 tariff (10% x \$250) + 49.50 \$ GST (15% x \$330) + \$49.24 cost recovery fee).

Suggested treatment

The large offshore supplier would be required to register for GST. When Melissa purchases her \$300 running shoes from the website, she will be charged \$45 GST by the supplier at the point of sale. No tariffs or cost recovery fees would be payable at the border. The total cost of Melissa's parcel would be \$345.

What are the consequences of any changes to the *de minimis* to how Customs and the Ministry for Primary Industries fund their border risk management activities?

Under the current system Customs and the Ministry for Primary Industries collect data on imported goods for risk management, as well as for assessing revenue under the current collection system.

Data is a crucial input into agencies' ability to target goods for inspection. Without this data Customs and the Ministry for Primary Industries would need to stop more goods at the border for inspection, increasing costs to agencies and resulting in delays for importers.

Customs and the Ministry for Primary Industries consider that an offshore supplier registration system to collect GST would allow revenue collection on these goods to be effectively separated from data collection. However, it would be worthwhile being explicit that any changes to arrangements for the collection of revenue should not result in Customs or the Ministry for Primary Industries receiving less or poorer quality data on imported goods for biosecurity and other border risk management purposes.

The loss of cost-recovered funding for Customs and the Ministry for Primary Industries currently collected on goods valued between \$226 and \$400 would be small.

Assisting the collection of GST from unregistered suppliers

If there are concerns about foregoing the collection of GST that is currently collected on goods valued between \$226 and \$400 from unregistered suppliers, the inclusion of rules that would deem goods sold through online marketplaces to have been supplied by the marketplace would help to address this. Indeed, these rules would see GST returned on goods sold through a marketplace from unregistered suppliers down to a good's value of \$0.

These rules would apply where offshore suppliers use a third party online marketplace, such as a website or internet portal, to market and sell their products. In these

instances, the marketplace operator would be treated as the supplier and be required to register instead of the underlying supplier.

Requiring the marketplace operator to register may reduce compliance and administration costs, as a potentially large number of smaller suppliers may not be required to register. However, the GST on supplies made by them will still be collected and paid to Inland Revenue by the marketplace. Furthermore, marketplace rules ensure that the GST on supplies from small suppliers who would otherwise fall below the registration threshold is still collected. While the purpose of the registration threshold is to reduce compliance costs for suppliers that do not supply many goods and services to New Zealand consumers, the compliance costs for these smaller suppliers fall away when the requirement to register and return GST is shifted to the marketplace.

There is also a compliance benefit associated with marketplace rules. This is because the liability to return GST is in many cases placed on a large and prominent business that is likely to have greater incentive to voluntarily comply in order to safeguard its reputation (compared with a smaller underlying supplier using its service).

Marketplace rules have already been used successfully for the collection of GST from suppliers of cross-border services and digital products to New Zealanders. The design of marketplace rules for an offshore supplier registration model on low-value imported goods would probably be similar to these rules.