

7 November 2016

Hon. Nicky Wagner, MP  
Minister of Customs  
Parliament Buildings  
WELLINGTON

Dear Minister

## OFFSHORE SUPPLIER REGISTRATION AND THE DE MINIMIS

As we have discussed previously, prior to the last Australian election, the Commonwealth Government announced that it would be requiring foreign suppliers of low value goods to Australian consumers to register for Australian GST, with effect from 1 July 2017.

I am writing to let you know that the Australian Treasury has now released an exposure draft of legislation to give effect to this, which you can see at:

<http://treasury.gov.au/ConsultationsandReviews/Consultations/2016/Applying-GST-to-low-value-goods-imported-by-consumers>

New Zealand retailers selling to Australian customers will now be required to collect and remit Australian GST on purchases made by Australian consumers. At the same time, in the absence of action by the New Zealand Government, Australian businesses will continue to be able to sell low-value goods to New Zealand customers free of tax and duty.

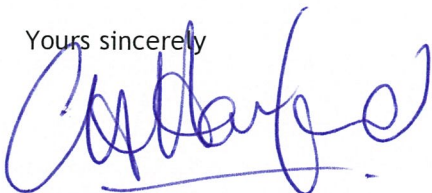
Online shopping is continuing to grow rapidly, and New Zealand firms face a significant competitive disadvantage because of the current de minimis rules: New Zealand's share of total online sales has fallen from around 65 per cent in 2012 to around 55 per cent now. This trend is continuing and, over time, New Zealand firms are being displaced from the market.

Action by the New Zealand Government is overdue and is now urgent. As we have advised your officials consistently, we strongly urge you to follow the Australian lead and introduce offshore supplier GST registration for those selling to New Zealand consumers from overseas.

We know that this is not a perfect solution - but it would be a massive step forward towards a level playing field and, most importantly, it can be achieved without any compliance cost at the border. The world's 20 largest international retailers account for two-thirds of all sales to New Zealanders, and it is only right that they pay their fair share of GST.

I am attaching a summary of the latest situation which may be of interest to you. Please let me know if you would like any further information.

Yours sincerely



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## Online shopping - Kiwi retailers are losing ground

- Kiwis spend about \$3.4 billion a year online buying goods and services, of which 55% is domestic; and 45% is from offshore.
- Total online sales are increasing much faster than from physical stores (online increased 17% over the past year, compared to total growth of 3.5% in physical stores).
- New Zealand firms are losing market share to foreign companies, and are gradually being displaced from the market (New Zealand online firms had 65% market share in 2012 compared to 55% now).
- GST is a universally applied tax to all goods and services sold in New Zealand, and up to 10% duty is charged on some imported goods, ostensibly to protect New Zealand manufacturing against offshore competition. Where applicable, this is incorporated into New Zealand retail pricing.

## The Government is missing out on at least \$200 million in revenue

- Goods sold offshore are outside the scope of New Zealand tax and duty rules. Companies selling goods to New Zealanders from offshore neither collect GST/duty; nor remit to it to the Government. This costs the Government at least \$200 million each year, and is growing all the time.
- GST and duty on low value goods is collected only total tax and duty owing is more than \$60 (that is, the value of the items, including freight, is worth more than \$400, or \$225 in the case of dutiable goods).
- Where tax is collected, the Government charges an additional fee of about \$48 (including GST) to cover Customs and MPI clearance costs.
- The Customs and MPI fees charged for the for the clearance of high-value parcels cross-subsidise the clearance of low-value goods, which cross the border without any fees being charged.

## Government can and should act now

- The Government has said it wants to close the de minimis loophole and begin collecting revenues, but there have been multiple false starts and insufficient leadership. The Government is treating it as a Customs issue, instead of a revenue one.
- In the meantime, offshore registration for services and intangibles came into effect on 1 October 2016. The Government should implement this solution for goods too.
- Australia has announced it will implement offshore supplier registration for GST from 1 July 2017 (the exposure draft of legislation is now available at <http://treasury.gov.au/ConsultationsandReviews/Consultations/2016/Applying-GST-to-low-value-goods-imported-by-consumers>).
- Amazon is reported to be establishing a fulfilment centre in Sydney, meaning that it will be in an even stronger position to sell to New Zealanders - and take advantage of the fact it doesn't need to pay GST.
- Two-thirds of all low-value goods come from the 20 biggest global online retailers. Their systems are generally capable of collecting sales taxes by destination if they are required to do so.

## There is no perfect solution - but a start is better than nothing

- There is no perfect solution, but New Zealand should implement offshore supplier registration for those selling goods to New Zealanders. This would deal with two-thirds of the outstanding GST with no inconvenience for consumers.
- Offshore supplier registration is a simple win, will allow the Government to show it is acting, and mitigate political risk.
- Customs could then concentrate on collecting any outstanding duty under current de minimis rules.

For further information, please contact:

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