

30 August 2011

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Minister of Revenue
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Hon Maurice Williamson
Minister of Customs
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Dear Ministers

Submission From New Zealand Retailers Association Related To The De Minimis Exemption As It Applies To Private Imports

Outcomes Sought:

- 1) The GST / Duty free status of private imports under \$400 should be removed.
- 2) The Government should put together a working group of suitably qualified industry people who would be charged with developing an electronic process for collecting such taxes.
- 3) The government would then need to develop a licencing agreement to manage the tax collection through the existing payments infrastructure.

Background:

Over recent weeks there has been significant media discussion over the fact that private imports under \$400 come into the country free of GST and Duty. If any consumer was unaware of this fact previously, they certainly won't be now. The product at the centre of the debate was, of course, the new All Black jersey.

Leaving the specifics of this case aside the New Zealand Retailers Association has been arguing about this issue for quite some time.

The essential argument is that if Government is going to shift the tax base from a tax on income to a tax on consumption then it should be a tax on all consumption. One can argue that at 15% we have a significant consumption tax and yet New Zealand consumers can order goods from overseas suppliers and providing the shipment is under \$400 they pay no GST or duty (if applicable). In fact, anecdotal evidence would suggest that it applies to many private imports over \$400 as well.

This is clearly an argument of fairness and equity. Retailers are not looking to government to give them a competitive "leg up". They simply want a fair system and a level playing field.

There is no taxation argument that supports this exemption. In the past there has been an efficiency argument around the cost of collection but we believe that this can now be overcome. Therefore, there is no reason for the continuing maintenance of this gift from the government to a wide range of non-New Zealand retailers.

The Shift In The Taxation Burden:

In the period before the introduction of GST (1985 / 86) income tax accounted for 76% of the personal tax collected with 13% coming from sales tax and a further 11% from Excise and Customs Duty. In the 2009 year the burden had shifted away from personal tax (65%) and much more towards a tax on consumption (27% from GST and 8% from Customs Duty and Excise). Since then, of course, GST has increased from 12.5% to 15% so this shift to a consumption based tax will now be even more pronounced.

The Changing Market:

In the past this issue has not been of great significance. However, the gains being made by off- shore suppliers in the on-line space is becoming significant. A recent study published by Price Waterhouse Coopers (PwC) suggest that the online retail market in New Zealand is valued at NZ\$2.68b – an increase of 12% since last year. This is confirmed by a recent study by A C Nielsen which suggested the market in 2010 was worth \$2.34b. The PwC study suggested that the proportion of this spent on off- shore sites was 34% or \$910m.

An Approximation – What Is The Tax Loss?

The rate of growth in the on-line space is not showing any signs of slowing and the experts all agree that growth of 12 % pa can be expected for at least the next few years. Currently the on-line sector in NZ is accounting for 5.1% of retail sales. This is similar to Australia (5.5%) but well behind the USA (7.5%) and the UK (9%).

So let's make a couple of assumptions - let's assume that most purchases from an off shore website are under the \$400 limit and let's assume that the current estimate of 34% going off- shore holds for the next few years. We could have:

Total Value – on-line retail sector based on 12% compound growth 2015	= \$4.22b
Share of on-line retail sector fulfilled from off shore 2015	= 34%
Value of off shore, on-line retail sales 2015	= \$1.43b
Maximum loss of GST (assumes all \$1.43b is in parcels under \$400)	= \$215m

We would agree that the assumptions made are quite broad but even if only half of the transactions fell in the under \$400 category we would still be talking of a loss of tax revenue (GST) of at least \$100m.

This is just part of the issue. On top of this we have the duty that currently isn't collected on those products subject to duty and we have the lost company tax from NZ retailers who have lost the business and the PAYE that their staff would have paid.

We are looking at a significant loss of tax revenue and we are simply giving this away because there is a belief that it is "too hard to collect"

So, what do other countries do? How does our de minimis level compare with others?

International Comparisons:

Our research has shown that there are a wide variety of exemptions:

		<u>NZ\$</u>
Australia	AU\$1000	1243
USA	US\$ 200	238
Canada	C\$ 20	24
Japan	JP¥10,000	153
Korea	KR Won 150,000	167
Singapore	S\$400	393
UK	UK 15	29
New Zealand	NZ\$ 400	400

We are certainly up there. With the exception of Australia, NZ and Singapore are way ahead of all other countries.

We have excluded Australia from these comments in light of the recently released report from the Australian Productivity Commission on the Australian retail market.

The report said

"There are strong in-principle grounds for the low threshold (LVT) exemption for GST and Duty on imported goods to be lowered significantly, to promote tax neutrality with domestic sales. However, the Government should not proceed to lower the LVT until it is cost effective to do so - that is, at a minimum, the tax revenue should exceed the full cost of collecting it"

This report recognised the unfairness of the exemption and as with this paper highlighted that the issue is about collection and not taxation.

How do other countries manage on a minimal level – how does the UK collect the tax efficiently with a de minimis of only 15?

Our understanding is that the goods in the UK go to the closest post Office and the VAT is paid when the consumer collects. Is this efficient?

A study of other countries practices would seem to be in order. How do they manage to operate at such low levels and still achieve some degree of efficiency ?

A Worked Example

Set out below I have taken a couple of examples to demonstrate the differential that the tax can make.

- 1) An item of clothing worth \$100.

The direct import will probably have a modest delivery charge of, say, \$15 so the consumer buying from the off shore site will pay \$115.

If duty and GST were added to this the price would rise to \$143.75 (10% duty and 15% GST) .This is a significant difference. So, before we consider any

other differences in cost structure we have given the off-shore supplier a benefit of \$28.75 (25%) courtesy of the New Zealand Government. So not only are we making it harder for the New Zealand retailer (either bricks and mortar or online) we are giving away a significant amount of government revenue. If I was sitting in the position of the off-shore operator I would be saying “ thanks for the subsidy”

- 2) Books from Amazon UK worth \$80
The direct import from Amazon UK is currently free delivery so the online shopper will buy for \$80.
The GST would add a further \$12 to the purchase making the outlay \$92.
Again the same argument as that expressed above applies.

These examples have been calculated on the NZ\$ equivalent. At the moment we have the added disadvantage of a very strong NZ dollar. This fluctuates and is largely beyond our control so we have to learn to live with it. What we don't have to live with and shouldn't have to live with is the subsidy that the New Zealand Government presents to our off shore competitors.

Summary:

The argument is about fairness and equity – the Australian Productivity Commission got it absolutely right – even if the tax raised is largely consumed by the cost of collection the target should be a tax neutral position for the domestic retailer. However, we believe there will also be the potential for a significant tax gain for the New Zealand Government. If the level of private imports doesn't change then the government will collect somewhere between \$100m and \$200m. If the imposition of the tax deters consumers from shopping off-shore the NZ retailers will improve their sales and profitability, they will likely have to employ more staff and hence more PAYE and again the government will win.

Please remember :

It is about fairness and equity.

It is about the NZ Government desisting from subsidising off shore retailers.

It is about a level playing field.

So where to from here?

We would revert to our opening three statements:

- 1) The exemption should be eliminated altogether and all private imports should attract GST and duty, where applicable.
- 2) A working group of suitably qualified people should be brought together to investigate how the collection process might be able to be made more efficient (part of the electronic transaction process??) We would be happy to assist in the identification of appropriate people.
- 3) A licensing arrangement needs to be worked through to facilitate efficient collection.

We would be delighted to meet with you and/or officials to work towards an appropriate solution.

A handwritten signature in black ink, appearing to read "John Albertson". The signature is written in a cursive style with a large, sweeping initial "J".

John Albertson
CEO

Cc: Rt Hon John Key
Prime Minister

Hon Bill English
Minister of Finance