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NEW ZEALAND

Offshore Suppliers and NZ GST

If you are a supplier of either goods or services to NZ based non-business consumers, then this article may be of interest to you.

Like most taxing jurisdictions around the globe, NZ has a consumption based sales tax, known as GST (VAT equivalent in other countries), which has been in existence since 1986. Up until recently, usually only supplies of goods or services made in NZ, had the potential to be subject to GST, and there were a number of legislative provisions in this regard, which assisted in determining whether a supply was being made inside or outside of NZ.

As an example, a non-resident who was making supplies to a NZ GST registered business customer, could still be deemed to be making the supply outside of NZ (even when the goods were actually in NZ at the time of supply) and therefore not subject to GST, on the basis that since the NZ business customer would be entitled to claim back any GST charged to them by the non-resident supplier, there was little benefit for Inland Revenue to require the non-resident supplier to register for GST in the first place.

The position is somewhat different however when it comes to supplies of goods and services for home/private consumption. The ever-increasing use of the internet to acquire both digital services and low-value goods from non-resident suppliers, has firstly exposed the NZ Government to a potential material loss of GST revenue (had those same goods and services been acquired from local suppliers), and secondly, created a very uneven playing field for those local suppliers who are trying to price match their non-resident competitors.

In an attempt to address these issues, we have seen the introduction of the so-called “Netflix tax” effective from 1st October 2016, and working its way through the legislative process presently, we are very likely to see the introduction of the so-called “Amazon tax” from 1st October 2019.

The “Netflix tax” was targeted at non-resident suppliers of remote services to NZ based non-business customers – a remote service effectively defined as one where, at the time of the performance of the service, there is no necessary connection between the physical location of the recipient and the place of physical performance – common examples being e-books, music, videos and software downloads, as well as non-digital services, such as general insurance, consulting, accounting and legal services.

Where the non-residents B2C supplies of remote services was expected to exceed \$NZD60,000 in a 12 month period, the non-resident has an obligation to register for GST and commence charging 15% GST on the NZ supply. The non-resident would then file a quarterly GST return to Inland Revenue, accounting for the GST collected from NZ customers.

From 1st October 2019, a greater number of non-resident suppliers are potentially going to be faced with NZ GST compliance obligations. At present, low value physical goods (<\$NZD400) can be entered into NZ with no GST charged at the border (unlike goods valued >\$NZD400). However under the proposed new “Amazon tax” rules, similar to the remote services regime, where a non-resident supplier expects to make

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B2C supplies to NZ based consumers of more than \$NZD60,000 in a 12 month period, they will also be required to register for NZ GST, and commence charging 15% GST to the NZ customer at the time of supply. Once GST registered, quarterly filing and payment obligations are also proposed.

For those non-resident suppliers who continue to fail to meet their NZ GST compliance obligations, Inland Revenue is going to utilise various provisions in NZ tax treaty agreements with other jurisdictions, to undertake enforcement activities.

If you would like further information with respect to either regime, please do not hesitate to contact us.

SINGAPORE

Reverse Charge on Singapore Digital Economy

Currently, Singapore does not impose Goods and Services Tax (“GST”) on the importation of services into Singapore. Consumers who download software and music from overseas do not have to pay any GST on such digital purchases. Businesses which purchase services from overseas suppliers are not subject to any GST.

Similarly, import relief for goods imported via air or post is set at S\$400. This concession recognizes that the cost of compliance is likely to outweigh the revenue collected. For goods above this threshold, GST is payable on the entire value. The current applicable GST rate is at 7%.

With the increasing transactions online and cross border trade, going forward this is all going to change as announced by the Minister for Finance in the Singapore Budget 2018.

With effect from 1 Jan 2020, the Government will introduce GST on imported services on Business to Business (“B2B”) and Business to Consumer (“B2C”) through the reverse charge mechanism. This will level the playing field for the local service providers as the overseas suppliers will be accorded the same GST treatment.

Reverse charge is a collection mechanism whereby the local GST registered business acts as an agent for the overseas service providers and accounts for GST. The local business is allowed to claim the “GST incurred” as its input tax credit claim.

Reverse charge for B2B services

For GST on B2B services, the reverse charge mechanism requires the local businesses to account for GST to IRAS on the services they imports. The local businesses can in turn claim the GST accounted for as its input tax, subject to the GST input tax recovery rules.

Only businesses that make exempt supplies or do not make any taxable supplies need to apply reverse charge. Reverse charge will be applicable to such businesses which are primarily banks and financial companies, mixed and residential property developers, and holding companies as these businesses are not allowed to claim their full input tax costs incurred.

On the other hand, many businesses make taxable supplies and thus would not be affected by this reverse charge mechanism. Most businesses are allowed to claim full refund of GST on the purchases incurred for their businesses, including B2B services they import, on the basis that they are making fully taxable supplies of goods and services. For these companies, the GST on imported services would be the same as their input tax claims. Hence reverse charge will not apply, to avoid unnecessary compliance burden.

Overseas Vendor Registration (“OVR”) for B2C services

The taxation of B2C imported services will take effect through an OVR model.

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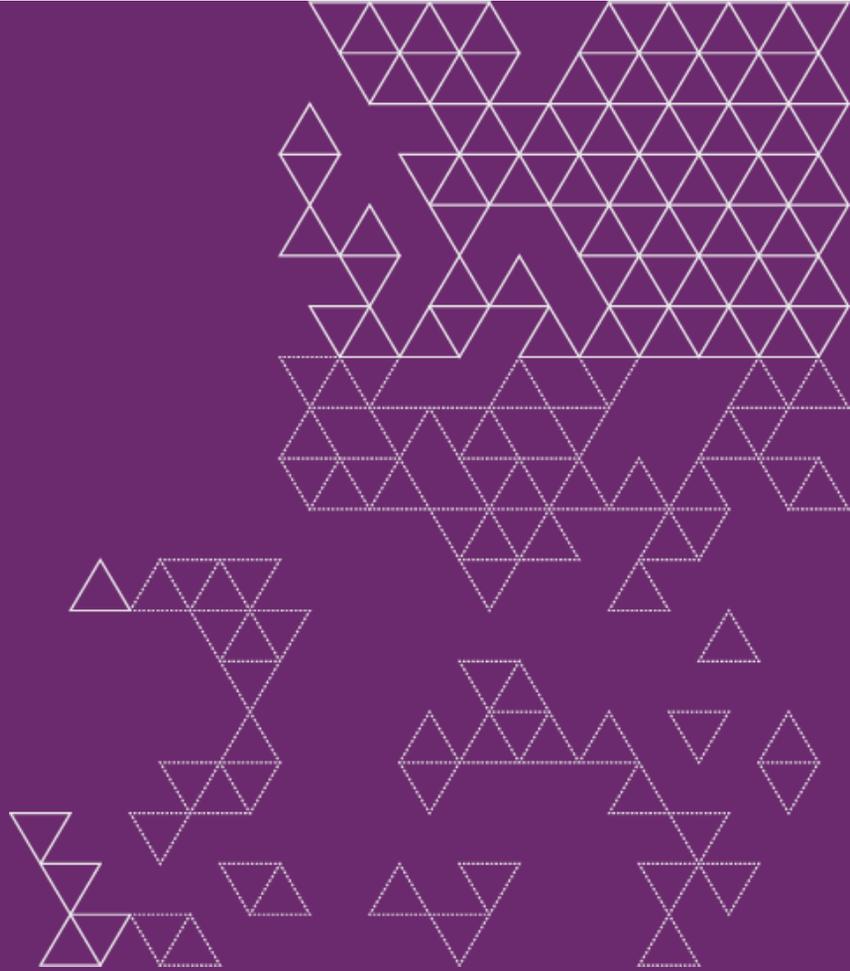
Overseas suppliers and electronic marketplace operators will need to be registered with IRAS. Once GST-registered, these overseas suppliers and electronic marketplace operators will collect GST for IRAS on their B2C supplies of digital services.

Specifically, overseas suppliers and electronic marketplace operators like app stores and google play which make substantial supplies of digital services to local consumers will be required to register with IRAS for GST. This applies to overseas vendors whose annual global turnover exceeds S\$1 million and whose sale of digital services to consumers in Singapore exceeds S\$100,000.

The S\$1 million global turnover is consistent with the S\$1 million GST registration threshold for suppliers in Singapore. The S\$100,000 sale of digital services minimizes the compliance burden on overseas vendors which do not make significant sales to Singapore consumers.

In conclusion, the imposition of GST on imported services is adopted by many tax jurisdictions, including Australia, New Zealand, the EU, Japan and Korea. Singapore is also following the global trend to ensure that the tax system remains fair and equitable to all.

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For further information, or become involved, please contact:

AGN International
E-mail: info@agn.org | Office: . +44 (0) 20 7971 7373 | Web: www.agn.org

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