

# ***GST Direct:***

Bringing you the latest GST  
and Customs developments

March 2016

Issue 29

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# Keeping abreast of Inland Revenue's GST focus areas

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*Inland Revenue has increased its activity in GST reviews and audits with a greater level of sophistication and depth.*

GST processes and procedures are being scrutinised by Inland Revenue through targeted questionnaires in order to determine businesses that may be at higher risk of non-compliance. Inland Revenue is also undertaking more data interrogation.

Examples of questions and requests for information include:

- Requests for general ledgers along with GST tax coding
- A step-by-step rundown of how the GST returns are prepared by the business
- Any safeguards or checks that the business has in place in preparing and reviewing the GST returns
- How the GST treatment of the supplies is determined.

Inland Revenue is specifically looking at output tax items and criteria for any exempt or zero-rated treatment. Inland Revenue is also looking at input tax and that correct documentation is held.

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*We would be happy to assist with you responding to queries from Inland Revenue regarding your GST compliance.*



***Inland Revenue is specifically looking at output tax items and criteria for any exempt or zero-rated treatment.***

# Low value threshold for imported goods

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*The rationale for the current de minimis threshold for imported goods (\$60 of taxes or \$400 of goods value) is to ensure that the cost of collecting customs duty and GST does not exceed the tax revenue received. Under any future reform of this area a key question is whether the distortions created in the domestic market and any advantage afforded to offshore sellers outweigh the factors for maintaining the status quo?*

Inland Revenue released a discussion document last year dealing with GST on offshore services and touched on low value imported goods. The collection of GST on imported goods raises a number of challenges and complexities. New Zealand Customs Service are exploring options that could streamline the collection of duties and GST having regard to various logistical issues. A discussion document is expected to be released by Customs in the next few months.

Any changes to the existing low value threshold, as well as any change to the current collection systems and processes, will need to balance a number of factors. These include the potential increased tax revenues, additional compliance costs for all parties concerned, and creating a level playing field between offshore and domestic sellers.



# GST and property – common mistakes

*Based on the number of errors we see with GST and property transactions there is still a lack of clarity around the compulsory zero rating (CZR) rules introduced in April 2011.*

The CZR rules require a supply wholly or partly consisting of land from a GST-registered person to another GST-registered person (who acquires the property with the intention of using it to make taxable supplies and not as a principal place of residence for themselves or an associate) to be zero-rated for GST purposes.

In theory the rules seem simple, i.e. B2B supplies involving land are zero-rated. However, there are pitfalls that we regularly come across. Careful contractual drafting and pricing expressions are vital – slip ups can be costly.

If you are a party to a property transaction and are uncertain on the GST treatment you should seek specific advice. Outlined below are some common questions and mistakes.

*PwC recently presented a REINZ webinar on GST and land and business transactions. For more detail, please contact PwC's GST team.*

*I'm GST registered and selling a property used in my business. The purchaser is not currently GST registered but says they will be registered at settlement. Do I still zero-rate the sale?*

Yes. If the purchaser has stated that they will be GST registered at settlement, the vendor can treat the supply as zero-rated for GST.

However, if the purchaser (or nominee) subsequently anticipates they will not be registered by settlement date, they must notify the seller before settlement. The vendor will then need to deliver to the purchaser an amended settlement statement to include GST – along with a credit note if the vendor has already issued a tax invoice.

*I'm GST registered and selling my farm property that I use for making taxable supplies and also as my principal place of residence. The purchaser is GST registered. Is the transaction zero-rated?*

Yes. That part of the property and other assets not being used as a principal place of residence can be zero rated if the purchaser acquires the property with the intention of using it to make taxable supplies and not as a principal place of residence.

However, the part of the property being used as a principal place of residence (e.g. the farm house) is deemed to be a separate supply and is not subject to GST.

*I'm GST registered and selling my property that I use for making taxable supplies. The purchaser is GST registered but intends to use part of the property as a principal place of residence. Is the supply zero-rated?*

No, GST at 15% applies. The CZR rules do not apply because the purchaser intends to use part of the property as a residence.

Note: these scenarios are tricky because the purchaser may not know at settlement if they will live in the residence. CZR could apply if the purchaser gives a CZR warranty to the vendor, but the purchaser then has to monitor changes of use post-settlement.

*I'm GST registered and selling my property that I use for making taxable supplies. The purchaser is also GST registered and intends using the property to make taxable supplies but has notified me to transfer the property to another party. Can the transaction still be zero-rated?*

For the purposes of the CZR rules, if the property is to be transferred to a nominee upon settlement, it is the GST status and intentions of the nominee that will determine the GST treatment, and not that of the purchaser.

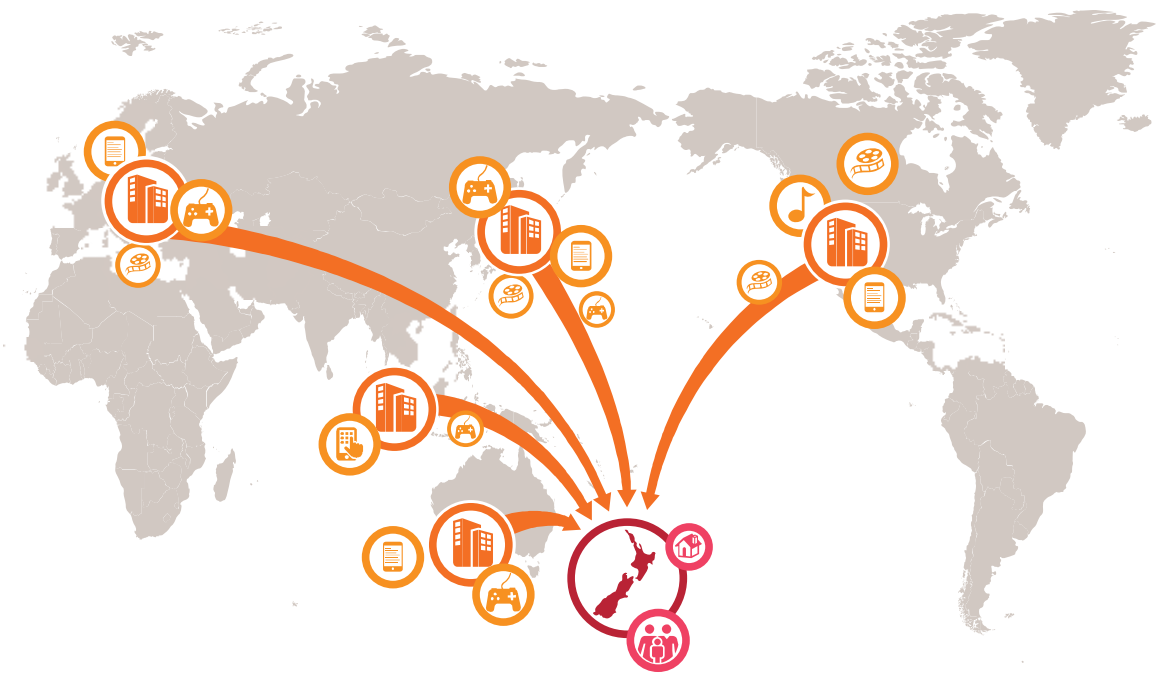
If the nominee is not GST registered, the sale cannot be zero-rated. GST would apply at the standard rate.

*I'm a GST registered builder operating as a sole trader and I'm planning to sell my family home. Can the transaction be zero-rated?*

The builder is GST registered but the family home is not part of his taxable activity and therefore GST does not apply.

# Digital products and remote services purchased from offshore sellers 4

*New Zealand changes to GST on digital products and remote services purchased from offshore.*



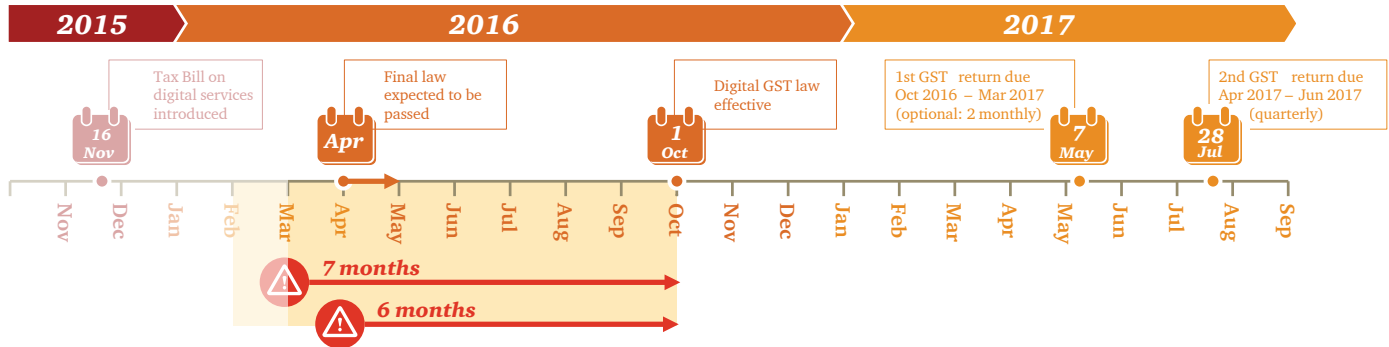
- Are you an *offshore business supplying digital content* (such as movies, music, games, downloads, apps, e-books) or remote services (such as software, gambling, webinars, web design, e-publishing) to New Zealand customers?
- Do you provide more *traditional online services* (such as IT, consultancy, legal advisory or insurance)?
- Do you provide an *electronic platform for a principal offshore supplier of digital products and services*?

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*If any of the above apply, you should be well advanced with your planning for potential New Zealand GST obligations under the “digital” rules changes that will apply from 1 October 2016.*



Amending legislation is expected to be passed in April 2016. Please see our Timeline setting out a guide for offshore sellers:

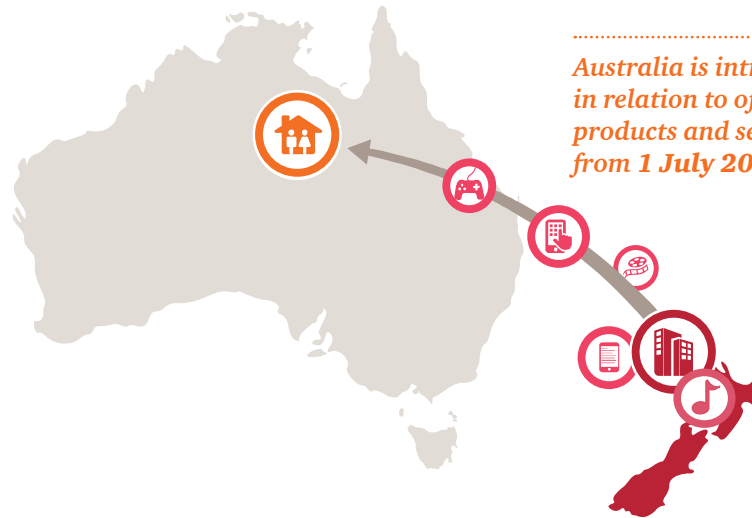


To do	To do	To do	Services
<ul style="list-style-type: none"> <li>Check whether you are liable (as a seller or intermediary).</li> <li>Set up a project team.</li> <li>Seek professional advice if required.</li> </ul>	<ul style="list-style-type: none"> <li>Set-up systems:               <ul style="list-style-type: none"> <li>contact software providers about changes required to systems</li> <li>update reports in your ERP/accounting systems</li> <li>ensure collection of evidence (eg. customer billing address, country code of their SIM card, IP address, bank details).</li> </ul> </li> <li>Review contracts with your business partners, including terms of sale.</li> <li>Test systems.</li> <li>Obtain confirmation of GST registration or New Zealand Business Number (NZBN) from B2B customers, or get approval from Inland Revenue that rules do not apply.</li> <li>Review pricing.</li> <li>Prepare for GST registration.</li> <li>Ensure marketing/interaction with customers.</li> </ul>	<ul style="list-style-type: none"> <li>Register for GST:               <ul style="list-style-type: none"> <li>upon reaching the \$60k threshold, or</li> <li>voluntarily.</li> </ul> </li> <li>Reflect GST in prices.</li> <li>Set-up GST compliance process.</li> <li>Collect evidence from B2C customers.</li> <li>Obtain confirmation of GST registration/NZBN from B2B customers, or seek concession from Inland Revenue.</li> </ul>	<ul style="list-style-type: none"> <li>Movies and music</li> <li>E-books, -magazines, -newspapers</li> <li>Webinars and e-learning</li> <li>Apps</li> <li>Games</li> <li>Software, IT</li> <li>Website design and publishing services</li> <li>Insurance</li> <li>Gambling</li> <li>Any other services purchased online (including e.g. legal, accounting and consultancy services).</li> </ul> <p>Note some exclusions will apply.</p>

#### Key features:

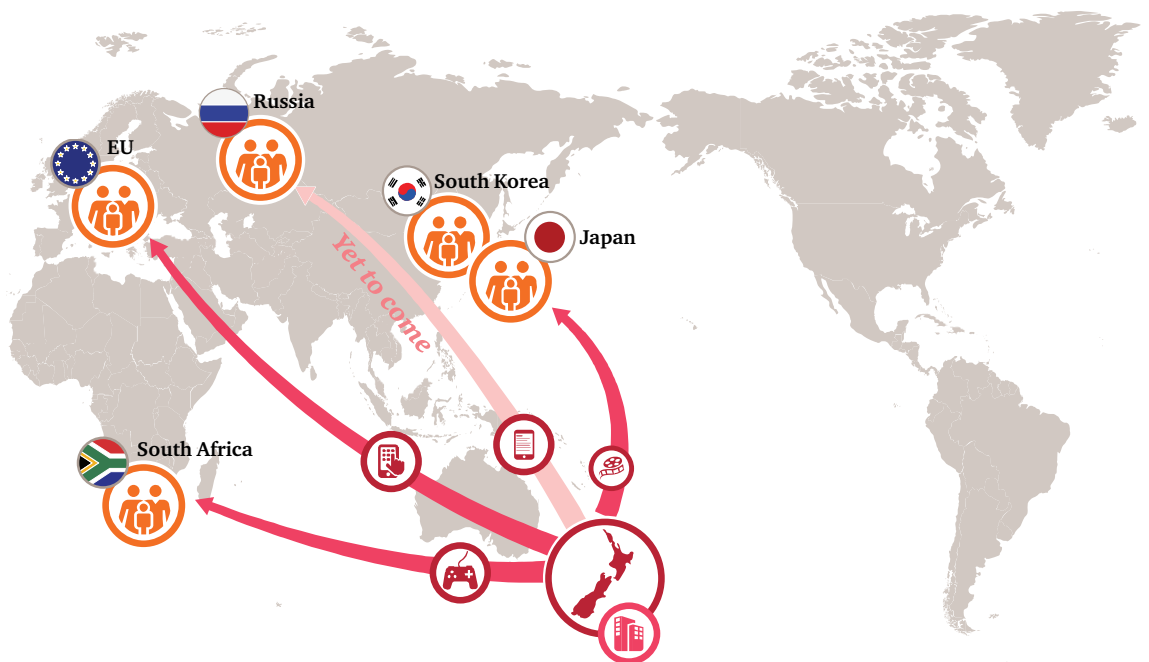
- From 1 October 2016, offshore sellers of digital products and remote services to New Zealand private consumers (B2C) should be registered for GST and account for 15% GST if the annual GST registration threshold (NZ\$60,000) is exceeded.
- Electronic marketplaces that sell remote services may be liable to register and account for GST.
- The change is aimed at B2C transactions but B2B transactions can be captured if the NZ business does not provide their GST status or NZ business number to the offshore seller.
- GST registration will primarily be a 'pay-only' system involving a general obligation to pay GST, i.e. no ability to claim GST on costs incurred. However, offshore sellers will be able to zero-rate B2B supplies that will allow them to recover NZ GST.
- Grouping with existing GST registered entities in New Zealand will be possible.
- In a positive development, offshore sellers will not be required to have a fully functional New Zealand bank account to obtain the IRD Number / GST registration.
- Existing GST treatment will be preserved in various areas, e.g. exempt financial services, reverse-charge mechanism for GST-exempt businesses and the voucher rules.

*Australian changes to GST on digital products and services sold by offshore suppliers to Australian consumers.*



*Australia is introducing similar GST changes in relation to offshore suppliers of digital products and services to Australian consumers from 1 July 2017.*

*Obligations for New Zealand sellers of digital products and remote services to offshore consumers.*



*New Zealand businesses selling digital products or remote services to private consumers in the EU, Japan, South Korea or South Africa could be liable to VAT/GST based on existing remote digital law in these countries.*

*Mini One-Stop Shop (MOSS) compliance is available in Europe. That means VAT for all EU Member States can be returned in one state of choice.*

*Russia is planning to implement similar rules from 2017.*

# Contact us

If you have any questions regarding the issues covered in this publication, please contact your usual PwC adviser or a member of our GST team. Our team can help you by delivering practical GST and Customs solutions and effectively managing your indirect taxes risk.

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