



Submission to the Organisation of Economic Cooperation and Development (OECD)

GUIDELINES ON PLACE OF TAXATION FOR BUSINESS-TO-CONSUMER SUPPLIES OF SERVICES AND INTANGIBLE: Discussion Drafts for Public Consultation

20 February 2015

Introduction

Booksellers NZ Incorporated (BSNZ) is the trade association for more than 75 percent of bookstores in New Zealand, representing 300 stores throughout the country.

BSNZ is making this submission in respect of the OECD discussion drafts for public consultation related to Guidelines on Place of Taxation for Business-to-Consumer Supplies of Services and Intangibles (Provisions on Supporting the Guidelines in Practice).

BSNZ is a member of Retail NZ (RNZ) and we are fully supportive of the submission made by RNZ, dated 20 February over the signature of Mr Greg Harford.

Price Competitiveness

The price competitiveness of New Zealand bookstores is currently severely cramped by the fact that the New Zealand Government does not collect GST on small value goods, including books, below the de minimis of \$400. This position is being exacerbated by the continued rise of purchasing from online retailers domiciled overseas which is not subject to the 15% GST as applied to all consumers spending in New Zealand. The amount of revenue lost by the NZ Government failing to implement the so called "universal" tax, universally, is estimated to be \$200 million at the least and possibly as great as \$500 million.

Booksellers are aware of the effect of this uncompetitive position every time they open their stores. They know they will not sell as many books as they would if they did not face the 15% GST challenge which they are unable to control. Consequently, they know they cannot stay open for as long hours as they would like to give their community the service it deserves, because they know they cannot afford the staffing costs. Thus, their community loses out culturally and economically.

Our bricks and mortar member bookstores face fair competition in various forms including from each other, non-member bookstores and non-member online bookstores based in New Zealand. This competition is on a level playing field as all purchases from these New Zealand domiciled businesses are subject to GST. However, competition from offshore online retailers supplying New Zealanders with low value goods, including books, is distortionary and unfair.

Registration for GST/VAT purposes of offshore suppliers in the local market

BSNZ strongly supports the basic principle of the Discussion Draft as contained in paragraph 3.28:

“Work carried out by OECD and other international organisations, as well as individual country experience, indicate that, at the present time, the most effective and efficient approach to ensure the appropriate collection of VAT on such cross-border business-to-consumer supplies is to require the non-resident supplier to register and account for the VAT in the jurisdiction of taxation.”

BSNZ submits this solution could also be easily applied to the collection of VAT/GST on low value goods imported from overseas retailers by domestic consumers. We further submit that agreement be sought from the OECD membership to extend funding to allow Working Party No. 9 of the OECD Committee on Fiscal Affairs (CFA) to include small value goods within the work currently under way relating to services and intangibles. We see no valid reason for Working Party No 9 to place the issue of low value goods at the bottom of its priorities, which appears to be the current position.

New Zealand Bookstores

With BSNZ member and non-member stores numbering more than 400, New Zealand has one of the largest number of bookstores per capita than any OECD country at one store per 1,125 persons. Bookstores are a vital part of the New Zealand community and cultural infrastructure.

Total book sales through brick and mortar stores (including online purchases from those stores) in New Zealand, is estimated to have been \$153 million in 2014 (\$115 million as calculated by Nielsen's Bookscan panel, plus 30% to account for sales from non-member retailers who do not provide sales figures to Bookscan).

With more than 4.85 million books sold in 2014 (Nielsen) at an average selling price of \$25.39 (inclusive of GST), the NZ Government collects approximately \$20 million in GST per annum from the sales of books. There are no statistics available as to the number of books bought by New Zealand consumers from offshore retailers. However, books are obviously part of the overall retail sector where \$3.19 billion of goods were bought from online retailers (2013), increasing at a rate of 14% per annum. This figure includes purchases from both onshore and offshore online retailers. We do not have a figure for the percentage value bought from offshore online retailers but it will definitely be material, as will the value of books bought from offshore retailers.

GST in New Zealand

GST is implemented by law in New Zealand universally, there being no exceptions other than financial transactions. The exception to this general rule is that New Zealand Customs have a special dispensation not to apply GST on small value goods purchased from overseas under a de minimis value of NZ\$400.

There has been a long standing campaign by BSNZ and other organisations e.g. RNZ, to have this distortion removed in order to establish fairness in the competitive environment.

Solutions sought

A number of proposals have been made to government proposing solutions to the collection of GST on low value goods. However, none have proved feasible mainly because of the cost that would be incurred by Customs in the collection of GST on small value goods.

In 2012/13 BSNZ commissioned Victoria University of Wellington, with the supervision of Professor Norman Gemmell, Chair of the Institute of Public Finance, to research the de minimis issue, its effects on the general economy of New Zealand and on bookstores in particular. These research documents, which also looked at possible solutions are attached herewith, and can be found via this link: <http://goo.gl/UJYqAQ>

Following presentations of this research in public and private seminars, (the latter included the New Zealand Inland Revenue Department (IRD)), a working party of officials from Customs, Treasury and IRD (lead agency), was established to advise the New Zealand Minister of Revenue on the issue. We understand that it was originally intended for a public discussion paper to be released by the Minister late in 2013.

Prevention of Base Erosion and Profit Shifting (BEPS)

This plan did not proceed. Instead we understood from the Minister that the matter had been drawn into the work stream related to the BEPS project being undertaken by the OECD. BSNZ understands and fully supports the efforts of the OECD to assist members in developing the means to meet the "Tax Challenges of the Modern Economy". However, we contend that there is an urgent need to ensure that consumption related taxes can be and should be, applied evenly across all consumption where VAT/GST would normally be applied.

Further Information

If requested, BSNZ would happily provide further information and/or represent its views to the OECD by way of teleconference or similar.

Yours faithfully



Lincoln Gould
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Booksellers New Zealand Inc.