

Tax Working Group

“Future of Tax” Background Paper

30 April 2018



1. Introduction

- 1.1 The “Future of Tax” background paper discusses opportunities and challenges to New Zealand’s tax system. One focus of the paper is change due to technology, particularly the Internet. By opening new ways for New Zealanders to work and do business, this change creates opportunities and risks for our tax system.
- 1.2 InternetNZ is an independent, membership-based charity, which works to promote the benefits and protect the potential of the Internet in New Zealand. We are an independent voice for the Internet, and for New Zealand’s Internet Community.

We support Internet-compatible options for better taxation

- 1.3 In this submission, we share an Internet perspective on issues raised in the background paper. We take no position on the broader aims or shape of tax policy. Instead, we want to inform and support this process, so that any desired policy outcomes are achieved in ways that work with, and enhance, the value of the Internet to New Zealanders.
- 1.4 Our recommendations are:
- a) that tax proposals for online commerce should consider all costs and benefits, and who will bear these
 - b) to offer tools and information for easy compliance. This may help with changes and concerns from cryptocurrencies and the sharing economy
 - c) to consider guidelines for using data responsibly, to allow the benefits data offers while managing and minimising risks to privacy.
- 1.5 As part of broader technological shifts, the Future of Tax paper touches on particular issues, such as the sharing economy, and the role of encryption. Our analysis in previous policy papers may assist with background on these issues.

InternetNZ Papers

[Encryption: what it is and why it’s important](#)

Background on encryption and its role in everyday online activities.

[Analogue Regulation, Digital World](#)

Section 2.1 discusses the role and value of the sharing economy.

2. Consider benefits of online commerce in tax policy

- 2.1 New Zealanders are enthusiastic buyers and suppliers of goods and services online. This creates some challenges for existing approaches to taxation, as it does to some existing ways of doing business.
- 2.2 Perhaps the most substantial challenge, as cited in the background paper, is increased use of offshore suppliers, potentially reducing the fair taxation of activity. We recognise that this is a real challenge, but it is one we wish to put in perspective.

New Zealanders buy online for many reasons

- 2.3 Some domestic retailers have expressed concern that increasing online sales will deprive them of business. Others have enthusiastically taken the opportunities and efficiencies which online commerce can offer.

- 2.4 We recognise that overseas suppliers may not charge GST on goods, and that this can sometimes create an unfair tax advantage for overseas suppliers. But that potential tax advantage is not the only reason New Zealanders buy online.

Online digital goods

Goods like music, movies, video games, and software, were historically sold in physical stores. Many consumers now purchase these through online stores and streaming platforms. These intangibles are now taxed if suppliers exceed the \$60,000 annual threshold for NZ-based business.

Online may not mean offshore

- 2.5 Even within New Zealand, consumers and suppliers have steadily increased their use of online transactions and platforms for doing business. Most of these platforms are legitimate businesses which charge and pay GST.

Online retailers in New Zealand

From supermarkets, to home appliances, to DVDs and other entertainment, retailers in New Zealand are increasingly offering online options. Figures in the “Future of Tax” paper indicate \$2.6 billion of domestic online spending.

Overseas purchases may not have a fair local equivalent

- 2.6 Some products may be unavailable domestically, others unavailable at competitive prices. The cost and delay of having physical goods shipped to New Zealand from overseas is an inherent disadvantage relative to domestic suppliers.

Accessing overseas specialist suppliers

New Zealand is a small market. Larger markets can support both bigger economies of scale, and more specialist suppliers. Access to specialist products, such as technical books or parts, may be particularly important for high-productivity businesses in New Zealand.

Consider both costs and benefits of tax proposals

- 2.7 Online commerce offers many benefits. Some of those benefits may be reduced by tax mechanisms which add cost or inconvenience.
- 2.8 There is a cost to track and levy tax obligations on any transaction. This cost should not determine the issue alone, but it should be one factor in deciding when and how to levy a tax on online purchases. This cost may be in the form of time, effort, or inconvenience rather than money.
- 2.9 A balanced approach to taxing online commerce has to consider the overall benefits and costs this currently offers to New Zealand, versus the overall benefits and costs of any proposed shift in taxation.

3. Using technology for better taxation

Give New Zealanders tools and data to make tax easy

- 3.1 New Zealand stands out for having a relatively simple and user-friendly tax system. Most single income earners do not need to calculate or arrange their

tax payments: these simply work. This is possible because Inland Revenue and employers have seamless, accurate processes which people trust.

- 3.2 The background paper identifies challenges for taxation as New Zealanders adopt new ways to work, generate income, and conduct transactions. It also highlights opportunities, where modern technology can help the tax system to adapt to these shifts in working and earning patterns.
- 3.3 We agree on both fronts. We see opportunities for technology to support an easy, transparent, and trustworthy tax system. To fully realise those opportunities, we need a tax system which retains the user-friendliness and trust that are strengths of our current system.

Making tax payments easy to suit shifts in technology

- 3.4 Technology opens new ways for New Zealanders to earn and build assets. These include cryptocurrencies and sharing economy services such as Uber and AirBNB.
- 3.5 Distributed ledger technologies have opened new ways for people to verify claims and conduct transactions. Cryptocurrencies are assets built on this technology, with the most visible and valuable being BitCoin. The background paper suggests that cryptocurrency transactions, by avoiding traditional intermediaries, may undermine third-party reporting and holding of tax. We agree there are challenges. However, the long-term effects of cryptocurrencies are still uncertain and poorly understood.
- 3.6 In our view, a sensible short-term approach to new asset classes, such as cryptocurrencies, is to make compliance as easy as possible. We recommend the Working Group, and Inland Revenue, consider tools to help New Zealanders understand and comply with their tax obligations.
- 3.7 For volatile assets like cryptocurrencies, Inland Revenue could assist compliance by providing an online calculator. Based on how long an asset has been held, and its fluctuations over that period, this could calculate likely tax obligations.

4. Manage and mitigate risks from greater use of data

- 4.1 The Future of Tax paper highlights the opportunity to make greater use of data held by the tax administration.
- 4.2 We agree that there are opportunities from greater use of tax data. However, there are also potential risks. Any collection of people's data, no matter how well-intentioned, how well-governed, and how well-secured, creates a risk that personal data or inferences drawn from it will be improperly used, accessed, or made public.
- 4.3 These may be particularly important in the tax system, where information can be sensitive, and participation is not optional.
- 4.4 We recommend that the Working Group consider how best to manage the risks and benefits of data, to ensure that the tax system remains transparent and trustworthy. On this point, it may be useful to consult with the Privacy Commissioner, and consider guidance from the Government's Data Futures Partnership and its report [*A Path to Social Licence*](#).

5. Conclusion

- 5.1 InternetNZ welcomes the chance to comment on the Future of Tax background paper. We are available to talk through our position, and any Internet-related questions which arise.

- 5.2 Our recommendations, set out above, are:
- a) that tax proposals for online commerce should consider all costs and benefits, and who will bear these.
 - b) to offer tools and information for easy compliance. This may help with changes and concerns from cryptocurrencies and the sharing economy.
 - c) to consider guidelines for using data responsibly, to allow the benefits data offers while managing and minimising risks to privacy.

We're happy to assist

- 5.3 We would welcome further opportunities to discuss our submission, or to assist the Tax Working Group on any Internet-related questions.
- 5.4 If we can assist, please contact James Ting-Edwards on james@internetnz.nz or 0211565596.



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