

Tax Talk | January 2018

Australian GST reforms on low value imported goods

With the rise in prevalence of online shopping, Australia recently reformed its GST rules applying to low value imported goods. These Australian rule changes are relevant to New Zealand businesses selling goods to customers in Australia.

Currently, low value imported goods with custom value of under AUD 1,000 are generally exempt from GST and customs duty in Australia. Effective from 1 July 2018, this low value imported goods exemption will be abolished.

New Zealand businesses that are selling goods to Australia consumers and have sales of more than AUD 75,000 in a 12 month period, even if they have no physical presence in Australia, will be required to

- register for GST in Australia;
- charge GST on sales to Australian consumers (unless the goods are GST-free);
- lodge returns with the Australian Tax Office; and
- update accounting and sales software to ensure GST is charged and disclosed on sales to Australian consumers.

There will be additional compliance and administration costs for New Zealand businesses on sales to Australia. There will be a simplified administrative system to deal with affected suppliers.

Comments

The Australian GST rules as they apply to cross-border supplies of goods and services (including digital supplies) continue to be reformed. These rule changes could have a significant effect on profitability and competitiveness.

We work closely with our Baker Tilly affiliate, Pitcher Partners, in Australia so feel free to contact your Staples Rodway advisor to discuss how Australian GST changes may affect your business.

Virtual currencies & real taxes

Cryptocurrencies are intangible property in which encryption techniques are used to both generate the digital currency and to verify the transfer of currency between people. There are some 900 cryptocurrencies of which Bitcoin is the most popular. Cryptocurrencies such as Bitcoin are obtained from a cryptocurrency exchange or (some overseas)ATMs, or customers who pay in cryptocurrency.

Baker Tilly Staples Rodway and CCH Learning recently presented "Taxing Cryptocurrencies (Tax, GST and Internet Cash). The Q & A session with 100 attendees ran for 45 minutes, here is a sample of the questions:

Question: If bitcoin is sold for a profit does income tax apply?

Answer: Income tax applies to the proceeds from selling any property acquired with a purpose or intention of disposal. Bitcoin is property and therefore any proceeds from the sale of bitcoin are taxable if it was acquired with a purpose of on-sale or disposal.

Question: What do Inland Revenue think?

Answer: Inland Revenue do not have published views as yet but are in the process of completing a public statement on the income tax and GST effects of cryptocurrency. (In comparison the Australian Tax Office published a series of rulings on cryptocurrencies in 2014).

Question: Is it possible for gains on bitcoin to be on capital account – i.e. non-taxable?

Answer: In tax terms bitcoin and gold share similar characteristics. Neither asset class produces revenue as compared to say shares or deposits which generate dividends and interest. With reference to this characteristic, Inland Revenue have recently released *Questions We've Been Asked – Are Proceeds from the Sale of Gold Bullion Income?* In short, Inland Revenue's default position is that "proceeds from selling gold are taxable".

Cryptocurrencies such as bitcoin will often be purchased with a view to disposal (and the proceeds will therefore be taxable). It is also true that assets such as gold and bitcoin can be purchased by investors for long-term holding, i.e. without a view to disposal. Not all purchasers of gold or bitcoin need to (or intend to) cash-out and realise their gains.

That said, Inland Revenue's position is clear, they expect tax to apply to the proceeds of selling cryptocurrencies.

Question: When my retail business sells goods and services and is paid in cryptocurrency, what is the GST effect?

Answer: Cryptocurrency is classified as a good or service for GST purposes. Therefore, the retailer is treated as selling goods and services in exchange for other goods and services. This is known as a “barter transaction”. Special rules apply depending on whether the transaction is a B2B or a B2C transaction.

Question: Is it true that consumers suffer a “GST double hit” when they buy bitcoin from a GST registered person and then use that bitcoin to buy goods and services from a business?

Answer: Yes, a purchaser is charged GST when they buy cryptocurrency from a GST registered person, and they are charged GST again when they buy the goods and services. This GST double hit occurs because cryptocurrency is classified as a good or service for GST purposes. (This assumes the consumer is not buying goods and services as part of a GST taxable activity). Interestingly, Australia has changed its GST Act such that cryptocurrency is “money” for GST purposes. As a result, GST does not apply when a person buys cryptocurrency. We hear that cryptocurrency related GST reform is expected in New Zealand . . . watch this space.

If you want to know more about the income tax and GST effects of cryptocurrencies contact your Baker Tilly Staples Rodway tax advisor.

BEPS Tax bill introduced 6th December

The Taxation (Neutralizing Base Erosion and Profit Shifting) Bill has been introduced to Parliament. When enacted, these tax changes will have a further and material impact on taxpayers doing cross-border business.

Some changes will take effect from the date of enactment (early 2018) and will significantly impact larger multinational groups with operations in New Zealand. For example, the changes to the definition of permanent establishment will significantly increase the New Zealand tax exposure of certain multinationals operating in New Zealand with arrangements that they currently regard as tax efficient.

Other changes are expected take effect for income years starting on or after 1 July 2018. These include changes to the taxation of hybrid tax arrangements and hybrid entities such as some foreign trusts, unit trusts, limited partnerships and some foreign branches. Other measures include transfer pricing measures requiring consistency between legal and commercial arrangements. In addition, amended related party debt rules will determine the interest rate margins that may apply to cross-border loans.

Overall these measures are part of a global sea-change that will require companies to review and in many cases restructure their cross-border tax arrangements. Your Baker Tilly Staples Rodway tax advisor understands how these law changes will affect your business.