

GST on Imports

This proposal is about change. The next ten years of tax policy is going to have more change than the last fifty. The economy and technology is now changing so quickly that just merely adapting will not be good enough; Tax policy must now also consider that which is not yet possible, but will be.

In this proposal I am going to take a multi disciplinary approach to Tax policy. I am going to consider some of the big trends in the world and discuss how they intersect with Tax Policy. I am then going to detail one particular tax policy detail utilizing this interdisciplinary approach as a demonstration of its importance and effectiveness.

The primary two disciplines I am going to be pulling from are software engineering and behavioral economics.

Software engineering influence on the world has defined the last two decades and has meant huge improvements in the discipline of both accounting and tax. In New Zealand, projects like E-File and MyIR have been fantastic improvements and Xero is changing the world. At the recent Xerocon during the final panel discussion it was taken for common knowledge that the amount of revenue accounting firms will generate from tax compliance will be dropping by up to 50% in the next five years.

Software is so successful in these fields because of two key concepts. It is modular and its scalability. Software can be rapidly changes and developed. It reaches economies of scale quickly and it a driving force in reducing transaction costs.

The second discipline of behavioral economics has not yet had as big an impact as software engineering, but has the potential to a big influence on the next decade. As an emerging field the experiments that have been run have been incredibly promising, especially in the area of tax. The United Kingdom's Behavioral Insights Team has been particular effective and is now having some of its tax programs launched nationwide.

One of the best examples of this effectiveness is the simple change in how collection letters were being written and sent out too tax payers. By adding onto a collection letter a statement about the payment habits of the people living in the same town as the recipient the HMRC saw an increase in repayments from those people of up to 15%.

One area I believe these two concepts can be applied to create lasting improvements is in the area of GST on imports. This is a hot topic in the media and something that I personally been heavily involved with for the last three years.

This is a very difficult problem not only for tax collection but also on the wider economy. By not effectively capturing the GST on incoming retail goods of under four hundred dollars, we are missing out on this GST but we are ALSO creating a tough environment for our local retail businesses.

When our local retailers must pay the GST and their overseas competitors do not we are essentially creating a reverse tariff on our own retailers and with the rapid decrease in the costs of worldwide

logistics this is creating an arbitrage opportunity for overseas businesses to sell into New Zealand with a real cost advantage.

A 15% cost advantage is very challenging disadvantage especially for our local retailer and in fact the only successful strategy that I have been involved in to combat this tariff is to ignore the incoming goods and become more active in marketing to the local customers of the international businesses that are already selling into New Zealand. So instead of trying to compete with the incoming goods I am seeing New Zealand retailers selling into Australia and the US in order to take advantage of this arbitrage themselves.

It is not clear that traditional solutions to this problem are going to be effective. The cost of collecting the GST at the border is onerous and only going to become more difficult as logistic costs continue to become cheaper the incentives for taking advantage of this arbitrage become greater.

My solution is based on key facts from both behavioral economics and software engineering. First when a tax payer is faced with an opportunity to pay their tax easily they mostly will. Second when a tax payer is faced with a distinct advantage to paying their tax they defiantly will and finally software's modular design can be used to create a system which will enable easy payment of this tax without having to create an entire infrastructure to do so.

It's a two part solution first we develop a "portal" or API to let anyone pay GST directly to the IRD with any type of software they like as a completely automatic process. This policy only requires that the process for accessing the "portal" or API be standardized.

What this would mean is that online checkouts could have modules developed for them, so that whenever a NZ billing address is entered it gives either the merchant or the customer an opportunity to connect with the IRD and pay the GST voluntarily and immediately.

Why would anyone want to pay the GST voluntarily? The second part of the "portal" or API will also send back to the merchant a barcode that can be attached to the parcel along with its consignment details – which are already being printed out from that same ecommerce software.

This barcode would mean that once the goods arrive in New Zealand customs it can be sent directly to the customer. Anything without a barcode will be put into holding for up to thirty days and follow the standard protocol.

Consumers are going to have a big incentive to make sure that the websites they are using comply with this technology, putting pressure on the retailers to comply with our system. Getting these international retailers on board may prove to be difficult and there could be additional costs in having to store goods while they are waiting through their probation but this does depend on how the strategy is implemented.

My plan would be to;

1. Develop software to make payments to the IRD.

2. Make the specifications for making these payments and receiving the barcodes public.
3. Engage with international retailers to implement the technology and set the standard modules.
4. Heavily advertising the change for one year.
5. After one year implement the hard rule that goods without a barcode will be put into holding for 30 days.

By implementing the system in this way it gives consumers and the private industry plenty of time to adapt to the change. It's going to mean that software developers are going to have time to develop the modules to integrate with the IRD "portal" or API and that the onus will be on them to create the seamless experience for their New Zealand customers.

It is also the type of integrated approach that the ecommerce industry looks too to solve these types of problems. Platforms like Shopify have an ecosystem of thousands of different plug-in application. This is how they solve their problems. These organizations make an effort to ensure that their customers who use their platforms pay the correct amount of tax, they want to apply the tax laws correctly and they are looking for an opportunity to show case their ability to self regulates and that will requires leadership from the tax policy profession.

This policy will be good for Consumers as it will continue to allow them to buy online. It will be good for New Zealand retailers because it will help to eliminate the cost advantage of international retailers, It will be good for the IRD and Government because of its low transaction cost nature and it will be good for the international ecommerce business as it will give them an opportunity to show how they can use their technology to comply with individual countries tax laws.