

## **REGULATORY IMPACT STATEMENT**

### **DE MINIMIS INCREASE TO OFFSET THE IMPACT OF THE INCREASE IN GST**

#### **AGENCY DISCLOSURE STATEMENT**

This Regulatory Impact Statement (RIS) has been prepared by the New Zealand Customs Service (Customs).

It provides an analysis of the impact of the increase in Goods and Services Tax (GST) to 15% from 1 October 2010 on the revenue waiver provision (de minimis). This RIS recommends the de minimis be increased from \$50 to \$60 to maintain the current landed value threshold of \$399 for import consignments under which the de minimis applies.

The analysis is based on Customs' information on the volume of import transactions currently falling under the de minimis threshold that would be affected by the increase in GST. It also takes into account the processes followed by importers in reporting goods to Customs and managing their businesses.

#### **Impacts on Business**

When asked by Customs, industry representing customs brokers and freight forwarders did not raise any regulatory impacts on business of increasing the de minimis from \$50 to \$60. There will be no ongoing increase in compliance costs.

#### **Overall Public Policy Objective**

The overall public policy objective is to ensure that the impacts on business and consumers of a lowered de minimis threshold arising from the increase to GST are well understood by all affected, and are mitigated where it is shown that unintended negative consequences would otherwise occur.

I have reviewed the RIS prepared by Customs and associated supporting material, and consider that the information and analysis summarised in the RIS meets the quality assurance criteria.

Conrad Petersen  
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New Zealand Customs Service

## **STATEMENT OF THE NATURE AND MAGNITUDE OF THE PROBLEM AND THE NEED FOR GOVERNMENT ACTION**

### **Status Quo**

New Zealand's de minimis is currently set at \$50. This means Customs does not need to collect import duty and GST on an import consignment when the total amount due is under \$50. If GST only is payable on an import consignment, the \$50 de minimis applies when the consignment's landed value is \$399 or less.

Besides the payment of GST and import duty, consignments that exceed the de minimis must pay an Import Transaction Fee of \$22 (GST exclusive), and a Biosecurity System Entry Levy of \$11.11 (GST exclusive).<sup>1</sup> Consignments below the de minimis don't pay these fees.

If the status quo in respect of the current de minimis level is retained, from 1 October 2010 the threshold landed value for consignments to qualify will reduce to \$333 (ie the GST payable on a consignment with a landed value of \$334 or more will exceed \$50). Customs estimates 38,000 to 42,000 import consignments per annum will be affected. The impacts are:

- revenue collection – Crown revenue will increase by approximately \$2.3 million per annum. This has not been factored into Crown revenue forecasts
- a requirement to submit a full import entry – commercial and private importers will face increased compliance costs due to more administrative effort to complete and submit import entries and (with the exception of some importers on Customs' deferred payment scheme) make revenue payments before consignments are cleared by Customs for delivery. The fast freight industry would face the prospect of increased administrative effort to collect information and obtain payments from importers of lower value consignments. The general public importing via international mail would be faced with having to submit an import declaration and making arrangements to pay Crown and departmental revenue
- the payment of processing fees – Customs' revenue will increase by approximately \$880,000 (excluding GST) per annum and Ministry of Agriculture and Forestry revenue by approximately \$444,000 (excluding GST) per annum (not taking into account any increased costs of collecting this revenue). This revenue has not been factored into departmental third party revenue forecasts.

In addition to increased compliance costs, commercial importers (the fast freight industry in particular) would have to make one-off system changes to implement the lower value threshold for consignments.

### **STATEMENT OF THE PUBLIC POLICY OBJECTIVE(S)**

The overall public policy objective is to ensure that the impacts on business and consumers of a lowered de minimis threshold arising from the increase to GST are well understood and are mitigated where it is shown that unintended negative consequences would otherwise occur.

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<sup>1</sup> The ITF covers Customs' import clearance costs and is payable if total GST and duty is above the de minimis. The BSEL is charged whenever an ITF is applied.

## **STATEMENT OF FEASIBLE OPTIONS (REGULATORY AND/OR NON-REGULATORY) THAT MAY CONSTITUTE VIABLE MEANS FOR ACHIEVING THE DESIRED OBJECTIVE(S)**

The desired policy objective is to offset the impacts of the increase in GST on the de minimis (and therefore importers).

The outcomes from leaving the de minimis unchanged in the face of the increase in GST are considered unintended and on balance undesirable because:

- they are purely incidental and not in response to conscious decisions to gather additional revenue, or to a changed regulatory environment or business practices; eg reduced costs of revenue collection or of complying with import documentation requirements
- the impacts are inconsistent with Government's commitments on the quality of regulation and managing the overall compliance burden.

There are no non-regulatory means of bringing about the objective.

### **PREFERRED REGULATORY OPTION: ADJUST THE DE MINIMIS**

The de minimis can be adjusted to offset the increase in GST by increasing the de minimis from \$50 to \$60 through an amendment to the Customs and Excise Regulations 1996. The amendment would maintain the value threshold for consignments at the current level, ie \$399.

The proposal would maintain the status quo in respect of the volume of import consignments subject to revenue collection and information reporting, and would not impact on Crown and departmental revenue forecasts.

### **STATEMENT OF THE NET BENEFIT OF THE PROPOSAL, INCLUDING THE TOTAL REGULATORY COSTS (ADMINISTRATIVE, COMPLIANCE AND ECONOMIC COSTS) AND BENEFITS (INCLUDING NON-QUANTIFIABLE BENEFITS) OF THE PROPOSAL, AND OTHER FEASIBLE OPTIONS**

The net benefit of the proposal lies in avoiding the incidental and unintended consequences on business compliance and regulatory costs of increasing the rate of GST without also adjusting the de minimis threshold.

### **STATEMENT OF CONSULTATION UNDERTAKEN**

#### **Stakeholder Consultation**

The Conference of Asia Pacific Express Couriers (CAPEC), New Zealand Post, the Customs Brokers and Freight Forwarders Federation (CBAFF), and the New Zealand Retailers Association (NZRA) have been consulted. New Zealand Post has no issues with the proposal.

CAPEC and CBAFF agree that the de minimis be adjusted as proposed, and that the outcome would be to preserve the status quo in respect of the revenue collection and consignment reporting threshold. CAPEC and CBAFF raised no concerns in response to Customs' questions about any regulatory impacts on business of increasing the de minimis from \$50 to \$60.

The NZRA does not agree with the proposal; and sees that a reduction in the value threshold will provide retailers some relief in the present economic climate – the general public may be encouraged to shop locally rather than offshore.

## **Government Departments/ Agencies Consultation**

The Treasury, Inland Revenue, the Ministry for Economic Development, and the Ministry of Agriculture and Forestry have been consulted. The Department of Prime Minister and Cabinet has been informed.

## **Implementation**

Implementation would be through changes to the Customs and Excise Regulations 1996. The increase in the de minimis would require minor system changes by Customs.

Publicity about the proposed change would be direct to industry and through Customs' business publications.

## **BUSINESS COMPLIANCE COST STATEMENT**

There would be no increases in business compliance costs.