

## New Zealand plans audits of foreign suppliers of "remote services"

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Effective 1 October 2016, foreign suppliers of "remote services" are required to register and account for Goods and Services Tax (GST) in New Zealand if the annual value of their remote services supplied to non-GST-registered New Zealand consumers exceeds \$60,000.<sup>1</sup> The definition of "remote services" includes any services supplied digitally or remotely, including electronic services and remotely provided traditional services (e.g., accounting, legal and consultancy work). From a compliance perspective, a nonresident supplier who only makes supplies of remote services in New Zealand (and whose taxable supplies exceed the registration threshold of \$60,000) must submit GST returns on a quarterly basis from 1 April 2017 (during the transitional period from 1 October 2016 to 31 March 2017, nonresident remote service suppliers could choose to file a six-monthly return or two-monthly return).

Since its introduction, New Zealand's Inland Revenue Department (IRD or tax authorities) has registered over 230 nonresidents under the provisions and estimated GST revenue of \$113 million has been collected in the first year alone. The IRD is receiving more applications from nonresident service providers and expects the tax revenue to see a stable increase in the coming years.

Given that steady inflow of revenue from nonresidents providing remote services, as a natural step, the IRD now plans to undertake GST audits on such overseas service providers. The intention would be to check if: (a) registration

has been obtained in a timely manner; and (b) if applicable GST has been collected and paid to the IRD as per the time and supply rules. As regards the methodology to collect the requisite information, New Zealand has arrangements under both bilateral agreements and the Multilateral Convention on Mutual Administrative Assistance in Tax Matters under which New Zealand can request foreign tax authorities to provide information, documents and collect unpaid GST on New Zealand's behalf.

Given that nonresidents do not have a physical presence in New Zealand, there is a perception of non-compliance which could result in interest exposure for delay in payment of GST, penal exposure for failure to register, late payment tax and non-payment of GST. Therefore, it is important for clients who are providing remote services to non-registered GST consumers in New Zealand, to check if they are adequately complying with the provision of New Zealand's GST law and to be prepared for audits which are going to be undertaken by the IRD.

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## Endnote

1. Currency references in this Alert are to NZ\$.

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EYG no. 011798-18Gbl

1508-1600216 NY  
ED None

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