

## New Zealand announces proposal to implement Digital Services Tax

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### Executive summary

The New Zealand Government has signaled its plan to consult on the introduction of a Digital Services Tax (DST). While specific details have not been announced, a discussion document will be released in May 2019 for public consultation. Revenue Minister Stuart Nash has indicated that the DST could be implemented in 2020.

### Detailed discussion

#### Background

The New Zealand Government has set up an independent panel (the Tax Working Group or the Group) to review the New Zealand tax system. In its interim report to the Government,<sup>1</sup> the Tax Working Group recommended that New Zealand continue to participate in the multilateral discussions at the Organisation for Economic Co-operation and Development (OECD) on the future of the international income tax framework. The Group further recommended that New Zealand be ready to implement a DST as an interim measure should there be a critical mass of other countries moving in that direction (particularly Australia) and if it could be sure that the cost would not simply be passed onto consumers.

Several other countries have announced their intention to pursue a DST since the interim report. Further, Australia has since released a discussion paper on the digital economy and its corporate tax system.

### Announcement

On 18 February 2018, the Government announced plans to consult on updates to the tax rules to target “highly digitalized companies” that earn income in New Zealand.<sup>2</sup> The Government intends the DST to be an interim measure until wider agreement in the OECD has been reached on the international income tax framework.

### Potential design

Specific design features of the tax have not been provided but approach will be drawn from proposals in other jurisdictions and the European Commission. The Prime Minister Jacinda Ardern has indicated that a 2% to 3% tax based on turnover will be a model under consideration.<sup>3</sup> Initial forecasts put the potential revenue at NZ\$30m<sup>4</sup> to \$80m, depending on the final design.

### Who will be impacted?

The Government has declined to comment on specific companies that may be impacted by the potential DST. However, in the announcement, the Finance Minister Grant Robertson acknowledged that “highly digitalized companies, such as those offering social media networks, trading platforms, and online advertising” may be impacted.

### Next steps

- ▶ A discussion document will be issued in May 2019 inviting public comment.
- ▶ There will be further opportunities for comment during the legislative process should legislation be proposed.

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### Endnotes

1. <https://taxworkinggroup.govt.nz/resources/future-tax-interim-report>.
2. <https://www.beehive.govt.nz/release/making-sure-multinationals-pay-their-fair-share>.
3. <https://www.newshub.co.nz/home/politics/2019/02/digital-services-tax-right-thing-to-do-jacinda-ardern.html>.
4. Currency references in this Alert are to NZ\$.

For additional information with respect to this Alert, please contact the following:

**Ernst & Young Limited, Auckland**

- ▶ Matthew Hanley, *New Zealand Tax Leader*      matthew.hanley@nz.ey.com
- ▶ Paul Smith, *Indirect Tax*      paul.smith@nz.ey.com
- ▶ Dean Madsen, *International Tax Services*      dean.madsen@nz.ey.com

**Ernst & Young Limited, Wellington**

- ▶ David Snell, *New Zealand Tax Policy Leader*      david.snell@nz.ey.com

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