

1 May 2015

Submission: Customs and Excise Act 1996 Review - Discussion Paper 2015

This document constitutes the Petroleum Exploration and Production Association of New Zealand's (PEPANZ) submission in respect of *Customs and Excise Act 1996 Review - Discussion Paper 2015* ("discussion paper"), which was released by the New Zealand Customs Service ("Customs") in March 2015.

PEPANZ represents private sector companies holding petroleum exploration and mining permits, service companies and individuals working in the industry.

Our submission is focussed on the topics addressed in questions 55-59 of the discussion paper: managing GST between Customs and Inland Revenue; and temporary imports. Our focus in this area is on streamlining systems to reduce unnecessary costs and administrative complexity. We are mindful that where the outcome is tax neutral these administrative processes and transactions potentially add only costs.

Managing GST between Customs and Inland Revenue

- Q 55 Is accounting for GST separately to Customs and Inland Revenue a significant issue for your business or industry? If so, in what way?
- Q 56 Are there areas of GST collection that you think require better legislative provisions in the Act?
- Q 57 Are there areas of GST collection where you think Customs and Inland Revenue need to work together better to provide benefits for businesses?

We agree with the issue identified in the discussion paper that in some cases reporting times and payment dates for Customs and Inland Revenue may not align or coincide, and that this can create costs and/or cash-flow difficulties for some businesses. Companies involved in the upstream petroleum industry important capital equipment and the GST on this can be significant. Whilst this GST can generally be reclaimed, and so is tax neutral, there can be compliance costs and/or time value of money costs for businesses.

Given that GST on imported goods is paid to Customs and subsequently claimed back from Inland Revenue, effectively creating a money roundabout, there is a case to simply remove GST at border for GST-registered businesses. We recognise there are multiple potential solutions to this issue including:

- Removing import GST completely from goods imported by GST registered businesses where they can claim back the GST from Inland Revenue.
- Applying a zero-rating (or offset) mechanism for GST-registered importers.
- Licensing importers (i.e. licensed importers would not have to pay import GST).

Whilst we do not have strong views on a preferred option at this stage, a zero rating mechanism looks like potentially efficient approach. In any case we support further policy development focussed on making the system for accounting for GST at the border as efficient as possible. Our

over-riding interest is a more integrated system for administering GST at the border between Inland Revenue and Customs that avoids or minimises unnecessary cash flow impacts, compliance costs and administrative time for both businesses and government agencies.

Temporary exemptions for duty

Q 58 Have you experienced issues working with Customs around temporary imports or in providing a security for temporary imported items? If so, how?

Q 59 In what ways do you think Customs could make the temporary importing of goods easier for businesses?

The discussion paper notes that businesses that temporarily import items and do not have access to the deferred payment scheme have reported that they can have difficulty in providing a bond or cash security for the GST and duty on the item. Additionally it notes that businesses also find the process costly and time-consuming.

The discussion paper noted these issues can create problems for businesses in general and sectors such as the oil exploration sector in particular. We support this view. Items temporarily imported (e.g. drilling rigs) can have significant value and so the cash flow implications and costs of meeting any bond or security requirement can be significant. The administrative time and costs involved can also be material for businesses. It would be useful and appropriate to provide systems to remove these costs where such items are clearly in New Zealand on a temporary basis and so there is no practical fiscal risk to the Crown to be managed.

A clearly defined process for Customs to follow in administering temporary exemptions would be useful. This should allow for temporary imports for time periods relevant to the asset even if these are significant. For example drilling rigs for example can be in New Zealand for a period of between a few months to substantially more than a year.

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