

New Zealand announces Digital Services Tax proposal

February 2019

New Zealand Prime Minister Jacinda Ardern has announced the Government's intention to introduce a Digital Services Tax.

Ardern confirmed at her weekly post-Cabinet press conference on 18 February that the Cabinet had agreed to issue a discussion document on how to update New Zealand's tax framework to ensure multinational companies pay their fair share of tax.

The discussion document is expected to be released in May, and will form the basis for a consultation process with industry.

Finance Minister Grant Robertson stated the tax is aimed at "highly digitalised companies, such as those offering social media networks, trading platforms, and online advertising, [which] currently earn a significant income from New Zealand consumers without being liable for income tax."

Robertson's statement specifically mentioned services such as Facebook, YouTube, Instagram, Uber, Airbnb and eBay.

The Government sees the proposed Digital Services Tax as an interim measure, while it continues to work within the OECD for an international solution for including the digital economy within tax frameworks.

The tax is expected to be 2-3% based on revenue. Officials have indicated the measure will raise \$30-80m per year in revenue, though the PM noted that these figures are highly speculative and will depend on the design of the system.

Background

This decision follows recommendations in Tax Working Group's the interim report, released in September 2018.

The report recommended the Government "stand ready to implement an equalization tax on digital services if a critical mass of other countries move in that direction".

Ministers have noted that the critical mass of countries is now there, with consultations for a Digital Services Tax taking place in the European Union and Australia, while countries including the UK, Spain, Italy, France, Austria and India have enacted or announced a Digital Services Tax.

The Tax Working Group's interim report noted risks to implementing a Digital Services Tax, including ensuring such a tax was consistent with New Zealand's international trade obligations and the risk of retaliation by other countries resulting in additional foreign taxes being imposed on New Zealand's export sector.



The Tax Working Group also expressed concern in its interim report that the tax could simply be passed on to consumers in New Zealand through higher prices for digital services.

The final report of the Tax Working Group report is due for release on Thursday February 21, and is expected to discuss a Digital Services Tax.

Opposition view

Amy Adams, Finance Spokesperson for the opposition National Party, said in response to the announcement that multinational companies should pay their fair share of tax, however she was concerned about New Zealand getting ahead of the OECD process. Adams also raised concerns that companies may pull services or parent countries could retaliate with similar measures targeting New Zealand companies.

Timeline for consultation

The formal consultation period is expected to start in May, with the release of the discussion document.

The Government will then develop and introduce legislation, which will go through a full three readings of the legislative process, including an opportunity to make written and oral submissions to the Select Committee.

Implementation is expected sometime in 2020.

Further information

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