II Taxation

Taxation

By Staples Rodway

Staples Rodway is New Zealand's seventh largest accounting practice. It has over 400 staff nationwide with offices in Auckland, Hamilton, Tauranga, New Plymouth, Hastings, Wellington and Christchurch. With the help of its affiliates in the Baker Tilly International network, we are able to help guide businesses through the tax complications arising from being an exporter. www.staplesrodway.co.nz

Taxation issues for exporters

Becoming an exporter opens up a world of opportunity for your business. Unfortunately, such an opportunity also brings potential tax complications. However, with forward thinking and the right team of advisors, your business can successfully navigate those complications.

We outline below some of the areas that you need to consider as an exporter. This is, of course, not a substitute for professional advice and our top tip for any business planning to export is to first contact their professional advisor.

Team approach

Before considering the tax issues, the most important thing to remember is that you need to take a team approach. A good tax advisor in the other jurisdiction/s that is able to help you navigate through the various potential pitfalls is worth the fees that you will incur. Additionally, the overseas tax advisor should be in contact with your New Zealand tax advisor to work through any difficult cross border issues and to develop solutions that will help manage the tax burden to your business.

GST/VAT

GST/VAT is one of the more obvious issues facing exporters, not only in relation to the GST treatment of exports by Inland Revenue, but also in relation to the GST/VAT treatment in the overseas jurisdiction.

Exports are generally zero-rated for New Zealand GST purposes. This means that your business charges a zero percent rate of GST on exports, but can claim GST on any qualifying expenses.

In the event that your business becomes a major exporter, expect Inland Revenue scrutiny as you will often receive GST refunds.

You will also need to consider the GST/VAT rules of the other country/countries, particularly around the charging of GST/VAT at the border and the process by which this amount can be claimed back. Depending on these rules, your business may need to register for and return foreign GST/VAT. This can add a complication, as, unlike New Zealand, overseas jurisdictions tend to have a myriad of exemptions and differing rates, particularly for items deemed necessities.

Finally, a number of countries are tightening up their rules around low value goods.

Australia, for instance, is planning to require offshore sellers of low value goods to account for Australian GST.

Income tax: Overseas

With cross border transactions comes the potential for overseas income tax issues. The level of complication is largely dependent on whether the other country has a Double Tax Agreement (DTA) with New Zealand. New Zealand currently has 40 DTAs, primarily with our major trading and investment partners.

The first issue is the level of connection that your business has in the other country. Each country has different rules in relation to the sort of connection that a business needs before it is obliged to account for income tax. If your connections are sufficiently remote, then you may not need to account for income tax and therefore do not need to consider whether there is a DTA.

However, if your business has a connection that may require it to account for income tax in the other jurisdiction, then consideration of whether there is a DTA between New Zealand and the other country is necessary. If there is a DTA, then for a business to be subject to income tax in the other country is dependent on whether they have a 'permanent establishment'.

A permanent establishment may arise, for example, where your business has a staff member in the other country that is conducting sales and concluding contracts. Determining whether a business has a permanent establishment is complex, especially with recent rule changes, and so you should seek professional advice.

Another area of tax that an export business needs to consider is non-resident withholding tax (NRWT), a tax on interest, dividend and royalty payments. While in many cases the business can claim the NRWT as a

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