Converting currency to New Zealand dollars

How to convert currency when working out if you should charge goods and services tax (GST) on sales of low-value goods imported into New Zealand.

What's changing?

From 1 December 2019, New Zealand goods and services tax (GST) will apply to sales of low-value goods imported by consumers into New Zealand.

Under these new rules, suppliers are required to calculate a reasonable estimate of the "customs value" of an individual item in New Zealand dollars to work out if the item is a low-value good (valued at $1,000 or less). If the item is a low-value good, GST must be charged on the supply of the item.

What's the customs value?

The value of an imported item is the price the item is sold for. This doesn't include any amounts charged by the supplier for:

- GST charged on the supply of the item
- duty payable by the supplier under the Customs and Excise Act 2018, and
- the cost of international transport and associated insurance of the item between leaving the country of export and being delivered in New Zealand.

Currency conversion to New Zealand dollars will only be necessary if:

- it is unclear whether a good that is sold in another currency has a customs value exceeding $1,000, and
- the supplier has not chosen to charge GST on supplies of high-value goods (goods with a customs value above $1,000).

As the customs value is worked out by using a reasonable estimate at the time of supply, the date or time of supply will be the date or time the currency conversion is done if it is required.

What exchange rate should I use?

When working out if goods are low-value goods, overseas suppliers may use any one of the following exchange rates:

- the spot exchange rate applying at the time of supply
- the rate published by the New Zealand Customs Service
- the Reserve Bank of New Zealand (RBNZ) rate, or a reference rate published by another central bank
- an exchange rate provided by a foreign exchange organisation or foreign exchange data vendor.

"Exchange rate" means the unit of foreign currency per New Zealand dollar, published within 30 calendar days of the conversion time. If using a rate other than the spot exchange rate that applies at the time of supply or the most recently published rate, the practice for sourcing the rate must be consistent.

Apart from the requirement that a supplier's chosen exchange rate be used consistently, there are no restrictions on the specific type of exchange rate suppliers may use for converting foreign currency amounts. This means suppliers have a choice of using a sell NZD rate, a buy NZD rate or a midpoint rate when converting foreign currency amounts to establish whether GST applies.

Currency conversion formula

In working out the customs value of goods, suppliers convert foreign currency to New Zealand dollars using the following formula:

> (Amount expressed in a foreign currency) / (the supplier's chosen exchange rate on the conversion day)

Sourcing exchange rates and updating business systems

A supplier may set a schedule to update their business systems with their chosen rate. This schedule must make sure rates will be updated at consistent and regular intervals, no more than 30 calendar days apart. A supplier cannot test and select a more favourable exchange rate at other times, or decide not to accept the published rate at the scheduled time.

A supplier may only change their exchange rate or their schedule for sourcing and updating the exchange rate in their systems if they have sound commercial reasons for doing so. If a supplier changes the exchange rate they use with the purpose of affecting whether goods are low-value goods, the supplier will not have used the rate consistently and will not have followed the requirements. However, different exchange rates may be used for distinct parts of the supplier's business, provided the exchange rate chosen for each part of the business is used consistently in that part.

Currency conversion when determining the amount of GST payable

When converting foreign currency amounts to New Zealand dollars to work out the amount of GST to be returned, a supplier can use the exchange rate applying at:

- the time of supply
- the last day of the relevant taxable period
- the date the supplier files their return for the relevant period (or the due date for filing, if the return is filed past the due date), or
- another date as agreed with the Commissioner of Inland Revenue.

If the supplier chooses an option other than expressing amounts in New Zealand currency at the time of supply, they cannot change it for 24 months unless agreed otherwise with the Commissioner.

Just as the exchange rate options for determining whether goods are low-value goods (and whether GST applies), the exchange rate used by the supplier to calculate the amount of GST required to be returned in New Zealand dollars may be a sell NZD rate, a buy NZD rate or a midpoint rate.

More information

Visit us at **ird.govt.nz/GSTupdate**

Or email **info.lvg@ird.govt.nz**

Example 1 – supplier using exchange rate published by New Zealand Customs

Pilko's Phones & Electronics (Pilko) is a non-resident merchant that supplies consumer electronics such as tablets and mobile phones. It prices goods in USD. Pilko is registered for GST in New Zealand.

To determine the estimated customs value of an item at the time of sale, Pilko has its point of sale systems set up to convert USD to NZD using the exchange rate published by the New Zealand Customs Service.

Customs publishes its exchange rates fortnightly, 11 calendar days before the newly published exchange rate comes into effect. Pilko has a practice of sourcing the most recently published exchange rate and updating the exchange rate in its point of sale systems 7 days after the exchange rate is published on the Customs website.

The currency conversion method used by Pilko meets the requirements. The schedule set by Pilko for sourcing the exchange rate and updating its systems is consistent in terms of its frequency and time of setting the rate. The time between setting the previous rate and updating the rate is 14 calendar days (within the 30-day maximum). Under Pilko's schedule, the maximum possible length of time between the publication date and the time of conversion is 21 calendar days. This is within the 30 day maximum.

Example 2 – supplier using midpoint exchange rate published by a retail bank

Witte Fashion Co. (Witte) is a non-resident merchant that supplies high-end clothing. It prices goods in AUD. Witte is registered for GST in New Zealand.

To determine the estimated customs value of an item at the time of sale, Witte has its point of sale systems set up to convert AUD to NZD using a mid-point rate published by a bank.

The bank publishes the close of trading foreign exchange rates from the previous day each morning except for Saturdays and Sundays. Witte has a practice of sourcing the most recently published exchange rate and updating the exchange rate in its point of sale systems once every 4 weeks on a Tuesday.

The currency conversion method used by Witte meets the requirements. The schedule set by Witte for sourcing the exchange rate and updating its systems is consistent in terms of its frequency and time of setting the rate, and the time between setting the previous rate and updating the rate is 28 calendar days. This is within the 30-day maximum. Under Witte's schedule, the maximum possible length of time between the publication date and the time of conversion is 28 calendar days. This is within the 30 day maximum.

Example 3 – currency conversion to determine whether goods are low-value goods

Witte (as in example 2) sells a suit valued at AU$880 to Gordon, plus AU$50 for shipping to Gordon's address in Wellington, New Zealand.

At the time of the sale, the midpoint exchange rate used in Witte's systems for estimating the customs value of items sold is AU$0.9270 to NZ$1. Based on this, Witte determines that the estimated customs value of the suit in New Zealand dollars is NZ$949.30 (AU$880 / AU$0.9270 = NZ$949.30).

As the estimated customs value is less than NZ$1,000, the suit is a low-value good. Witte charges Gordon GST of AU$139.50 (AU$930 x 15% = AU$139.50).

Example 4 – currency conversion to determine amount of GST to be returned in New Zealand dollars

When preparing their GST return, Witte determines that the total amount of GST they charged for the most recent taxable period is AU$9,000.

Witte has chosen to use the exchange rate applying on the date that they file their GST return to determine the amount of GST to be returned to Inland Revenue in New Zealand dollars. The exchange rate applying on the date that Witte files their return is AU$0.9294 / NZ$1.

The amount of GST Witte return in their GST return is NZ$9,683.67 (AU$9,000 / AU$0.9294 = NZ$9,683.67).

Witte must use this method for 24 months. They must convert GST from AUD to NZD on the date they file each GST return (or the due date if a return is filed late).