



Inland Revenue
Te Tari Taake

RULINGS > PRODUCT

Zap NZ Limited

Issued: 8 April 2021

BR Prd 21/03

This Ruling concerns the application of the GST voucher rules to the Zap NZ Limited digital gift card and loyalty scheme. Under the scheme, customers purchase Zap, which Zap Holders can redeem for goods or services supplied by Participating Retailers.

START DATE – END DATE

6 August 2020 – 31 March 2023

Product Ruling – BR Prd 21/03

This is a product ruling made under s 91F of the Tax Administration Act 1994.

Name of person who applied for the Ruling

This Ruling has been applied for by Zap NZ Limited (ZNZL).

Taxation Laws

All legislative references are to the Goods and Services Tax Act 1985 unless otherwise stated.

This Ruling applies in respect of ss 5(11E), 5(11EA), 5(11F) and 5(11G).

The Arrangement to which this Ruling applies

The Arrangement is the provision of the ZNZL digital gift card and loyalty scheme. Under the scheme, customers purchase Zap, which can be redeemed by Zap Holders for goods or services supplied by Participating Retailers.

Further details of the Arrangement are set out in the paragraphs below.

Background

1. ZNZL has created a digital gift card and loyalty scheme that is powered by blockchain technology. ZNZL has also developed the Zap App, which is downloadable from Apple iTunes or Google Play on mobile phones and other electronic devices. The Zap App allows customers to create a digital wallet in which the New Zealand dollar value of Zap is stored for its customers to use to purchase goods or services from Participating Retailers.

Details of Arrangement

2. Capitalised terms in this Ruling have the same meaning as in the Terms and Conditions of Zap and the Zap Participating Retailer Agreement (discussed in [7]).

Parties to the Arrangement

3. The Arrangement involves:

- the Applicant: ZNZL, being the owner of the ZNZL gift card and loyalty scheme and the Issuer of Zap;
 - Issuing Agents: Red Rat Clothing Limited (RRCL) and other retailers that ZNZL appoints to issue Zap;
 - Holders: people who hold Zap through the Zap App and are entitled to receive goods or services when they redeem Zap;
 - Participating Retailers: the stores in which Holders may redeem the Zap for goods or services; and
 - Customers: people who purchase Zap and who may not be the same people as the Holders if they allow another person to use or take possession of the Zap.
4. ZNZL is a New Zealand resident company, and all Participating Retailers are resident in New Zealand.
 5. ZNZL, Issuing Agents and all Participating Retailers are “registered persons” (as defined in s 2(1)).
 6. Zap Terms and Conditions state that only an Approved Holder can acquire, hold or use Zap. An Approved Holder must be an individual legally residing in New Zealand and over the age of 10 years.

Terms and conditions documented

7. The terms and conditions of the ZNZL digital gift card and loyalty scheme are set out in two documents (which are not materially different to the updated documents as at 5 October 2020 provided to Inland Revenue on 29 January 2021):
 - Terms and Conditions of Zap;
 - Zap Participating Retailer Agreement.
8. ZNZL has entered into a Zap Participating Retailer Agreement with RRCL. RRCL is the Original Participating Retailer.
9. Participating Retailers are those that agree to accept Zap from Holders in exchange for goods and services. Participating Retailers accede to the Participating Retailer Agreement by executing and delivering an Accession Agreement in the form of Schedule 1 in the Zap Participating Retailer Agreement.
10. Each Participating Retailer undertakes to each other Party to accept Zap for redemption against goods or services with effect from the Effective Date on the terms of the Participating Retailer Agreement and the Zap Terms and Conditions. Zap Terms

and Conditions are defined as the terms and conditions relating to Zap accessible on the Zap website <https://zap.me>.

11. Clause 3.1 of the Zap Participating Retailer Agreement provides for the appointment of Participating Retailers as Issuing Agents by the Issuer. Clause 3.2 states that the Issuing Agent issues Zap to customers as agent for the Issuer, and not in its own capacity.
12. Clause 2.7 of the Zap Participating Retailer Agreement states:

The Issuer and each Participating Retailer agree that each Zap operates as a digital gift voucher for the purposes of the GST Act. In particular, the Issuer and each Participating Retailer agree that section 5(11G) of the GST Act applies and the time of supply is on redemption of Zap for goods or services provided by the Participating Retailer to the customer. The Issuer does not redeem Zap for goods or services.

Zap gift cards

13. Zap are prepaid, digital gift cards that are issued by ZNZL or Issuing Agents on behalf of ZNZL.
14. Zap are underpinned by blockchain technology to ensure the gift cards cannot be spent twice. According to the applicant, this creates a more secure form of gift card, as the blockchain technology prevents the forgery and fraud that can occur with traditional forms of gift cards.
15. Zap operates through the Zap App that is downloadable from Apple iTunes and Google Play.
16. The Zap App allows customers to create a digital wallet, in which the New Zealand dollar value of Zap is stored for use by its customers to purchase goods or services from Participating Retailers.

Purchase of gift cards

17. A customer can purchase Zap from RRCL as Issuing Agent. Purchases can also be made online or through the Zap App.
18. A customer purchases Zap using New Zealand dollars. One "Zap" is the equivalent of one New Zealand dollar. In addition, RRCL offers eligible customers a revolving consumer credit facility called EZPay to assist them to finance their purchases. RRCL allows approved EZPay customers to exchange some or all of their undrawn EZPay credit for Zap. Once payment is received or customer credit is approved, RRCL

transfers the Zap into the customer's digital wallet that they have downloaded onto their phone or other electronic device.

19. The amount of Zap a customer can load onto their digital wallet is unlimited.

Holders own the gift card

20. A Holder's Zap is held in their digital wallet. The Holder is deemed to be the rightful legal owner of the Zap for all purposes.

Redeeming Zap

21. Holders can use Zap to purchase goods and services from Participating Retailers. Holders redeem Zap by using a QR code or through a Participating Retailer's point-of-sale system.

Right to assign

22. Holders and Participating Retailers can gift, sell, assign or transfer their Zap to any Approved Holder.
23. Holders can gift or sell peer to peer just as any card or paper-based gift card can be. By operating through the Zap App, these transactions are more secure and more traceable.

No right to redeem for cash

24. A Holder cannot redeem their Zap for cash from ZNZL, a Participating Retailer or any other person.
25. If a Holder's Zap is lost, stolen or not exchanged for goods and services, Zap cannot be refunded or replaced, and the Holder cannot receive any equivalent value denominated in New Zealand dollars or other currency.

Expiry

26. Each Participating Retailer has the right to set an expiry date, at its discretion, after which it is no longer required to accept Zap gift cards in exchange for goods and services. The Participating Retailer must notify ZNZL in writing of the expiry date at least 48 hours prior to it taking effect. The expiry date will be published on the Zap App.

Loyalty

27. When a customer purchases goods or services using Zap, Participating Retailers may choose to offer the customer bonus Zap which the retailer has purchased from ZNZL. Bonus Zap the customer receives are available for the customer to use on a later transaction and may lapse if not used within a short timeframe. Bonus Zap may be redeemed with that Participating Retailer, or another Participating Retailer that accepts Zap. This is to encourage loyalty to Zap Participating Retailers.

Reconciliation process

28. In accordance with the monthly reconciliation process, the Issuing Agent must remit funds held as Issuing Agent to the Issuer, and Participating Retailers may exchange Zap received from customers as consideration for goods and services for New Zealand dollars. Where an Issuing Agent is also a Participating Retailer, the amounts may be offset. Bonus Zap purchased may also be netted off. The Issuer remits the dollar value of the Zap less the Exchange Fee to Participating Retailers. The Participating Retailer is not charged any fees from the Effective Date until the date falling six months after the Effective Date (the Grace Period).

How the Taxation Laws apply to the Arrangement

The Taxation Laws apply to the Arrangement as follows:

- (a) Under s 5(11E) and s (11EA), no supply occurs in respect of any Zap:
- (i) issued by ZNZL to a Holder;
 - (ii) issued by any Issuing Agent to a Holder;
 - (iii) issued by ZNZL to a Participating Retailer; or
 - (iv) supplied by a Participating Retailer to a Holder under the loyalty scheme (that is, bonus Zap).
- (b) Section 5(11F) does not apply to the supply of goods and services, when Zap are redeemed for goods or services.
- (c) Under s 5(11G), any goods and services Participating Retailers supply to Holders on redemption of Zap are treated as a supply of goods and services for GST purposes. Accordingly, Participating Retailers are required to charge Holders GST and account for GST output tax when Holders acquire goods and services by redeeming their Zap.

The period or income year for which this Ruling applies

This Ruling will apply for the period beginning on 6 August 2020 and ending on 31 March 2023.

This Ruling is signed by me on the 8th day of April 2021.

Howard Davis
Group Leader – Tax Counsel Office

About this document

Product Rulings are issued by the Tax Counsel Office and Customer and Compliance Services. Product Rulings set out the Commissioner's view on how tax laws apply to a particular "product" – which is an arrangement that a specified taxpayer is likely to enter into with a number of people on identical terms. Taxpayers who enter into the arrangement described in a Product Ruling may apply the ruling, but are not obliged to do so. Product Rulings are binding on the Commissioner. This means that if you are entitled to apply a Product Ruling and you have calculated your tax liability in accordance with the ruling, the Commissioner must accept that assessment. A Product Ruling applies only to the taxation laws and arrangement set out in the ruling, and only for the period specified in the ruling. It is important to note that a general similarity to an arrangement covered by a Product Ruling will not necessarily lead to the same tax result.