

**RULINGS** > PRODUCT

# Waka Kotahi NZ Transport Agency

Issued: 20 October 2023

**BR Prd 23/02**

This Ruling applies to Participants in the National Ticketing Solution to be administered by Waka Kotahi NZ Transport Agency across New Zealand. The National Ticketing Solution will include the:

- sale or transfer of rights to use physical and virtual Transit Cards;
- ability to top up physical and virtual Transit Cards;
- use of Transit Cards or contactless payment cards to pay for transport services;
- ability to purchase Transit Products, including period passes and set trip passes; and
- establishment of Transit Accounts linked to either a Transit Card or a contactless payment card.

**START DATE – END DATE**

20/10/2023 – 30/06/2028

(THIS TITLE PAGE DOES NOT FORM PART OF THE RULING.)

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## Product Ruling – BR Prd 23/02

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 Waka Kotahi NZ Transport Agency (Waka Kotahi).

### 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(11D) – 5(11H), 8(1), 9(1), 17K(10) and 60(1).

### The Arrangement to which this Ruling applies

The Arrangement is the National Ticketing Solution to be administered by Waka Kotahi across New Zealand. The National Ticketing Solution will include the:

- sale or transfer of rights to use physical and virtual Transit Cards;
- ability to top up physical and virtual Transit Cards;
- use of Transit Cards or contactless payment cards to pay for transport services;
- ability to purchase Transit Products, including period passes and set trip passes; and
- establishment of Transit Accounts linked to either a Transit Card or a contactless payment card.

The Arrangement is documented in the following agreements:

- the National Ticketing Solution Participation Agreement (the Participation Agreement) dated 14 October 2022, entered into between Waka Kotahi and Participants in the National Ticketing Solution;
- the supplementary agreement to the Participation Agreement documenting additional terms and conditions agreed between the parties (currently draft); and
- the following Master Services Agreements (MSAs) entered into between Waka Kotahi and the Service Providers:
  - Merchant Acquirer MSA dated 17 August 2023;
  - Retail Network Manager MSA dated 1 March 2023;

- Ticketing Service Provider MSA dated 21 October 2022; and
- Transit Card Program Manager MSA dated 15 August 2023.

Capitalised terms are as defined in the above agreements.

Further details of the Arrangement are set out below.

## **The Parties to the National Ticketing Solution**

- 1) Waka Kotahi is the Crown agency responsible for overseeing and implementing the National Ticketing Solution. Waka Kotahi is GST registered and carries on a taxable activity as a Crown agency overseeing the land transportation system in New Zealand.
- 2) Public Transport Authorities are responsible for procuring, providing and managing public transport services in a region or district. The Public Transport Authorities are:
  - Auckland Transport;
  - Greater Wellington Regional Council;
  - Environment Canterbury; and
  - members of the Regional Consortium comprising 10 local authorities (Northland Regional Council, Waikato Regional Council, Bay of Plenty Regional Council, Taranaki Regional Council, Gisborne District Council, Horizons Regional Council, Hawkes Bay Regional Council, Nelson City Council, Otago Regional Council, and Invercargill City Council).
- 3) Transport Service Owners include a Public Transport Authority and a Transport Operator that owns and operates a transport service and is contracted to a Transport Service Owner.

## **The Participation Agreement**

- 4) Waka Kotahi and the Public Transport Authorities have entered into the Participation Agreement, dated 14 October 2022. A Transport Service Owner may also become a participant if it signs on to access the National Ticketing Solution. Together, the Public Transport Authorities and any other Transport Service Owners or Transport Operators that sign on to the Participation Agreement are referred to as "Participants".
- 5) The Participation Agreement sets out the broad principles on which the National Ticketing Solution will operate. The agreement records the parties' agreement for the governance, cost allocation, transition planning, establishment, implementation,

transition and operation of the National Ticketing Solution. The Participation Agreement will be supported by Rules.

- 6) Relevantly, the National Ticketing Solution is only a ticketing and payment solution. Each Participant remains responsible for the delivery of public transport services (cl 6.3 of the Participation Agreement).
- 7) No formal agency relationship is established between the parties (cl 28.6 of the Participation Agreement). However, the parties to the Participation Agreement agree to allocate fare revenue to the relevant party or parties who provide the public transport service. Any party that collects payment for the purchase of a Transit Card, a Top-up of a Transit Account and/or the purchase of a Transit Product will release the payment promptly to Waka Kotahi's nominated bank account (cl 9.2 of the Participation Agreement).
- 8) The supplementary agreement to the Participation Agreement will be entered into between Waka Kotahi and the Participants, agreeing further terms and conditions. The further terms and conditions will establish the following:
  - The Participant is appointed to sell Transit Card Rights and Top-Ups as agent for and on behalf of Waka Kotahi.
  - The Participant agrees that when it sells Transit Products it will receive the sale amounts as stakeholder for the benefit of itself and/or Waka Kotahi.
  - The Participant will pay all amounts received from sales of Transit Card Rights, Top-ups or Transit Products into the account nominated by Waka Kotahi.
  - Waka Kotahi (or its agent) will hold amounts received for Top-ups and Transit Products as stakeholder for the benefit of itself and/or the relevant Participant that supplies the public transport services.
  - The Participant will not treat itself as principal or account for GST for amounts received at the time of sale of any Transit Card Rights or Top-ups. Similarly, the Participant will not account for GST at the time of sale of the Transit Products.
  - Where a customer purchases transport services using a contactless payment card, the fare proceeds will be paid into an account nominated by Waka Kotahi, and Waka Kotahi will receive the fare proceeds as stakeholder for the benefit of itself and/or the relevant Participant that supplies the transportation services. Waka Kotahi agrees it will not treat itself as principal for the supply of the transport, or account for GST on the supply.

- The Participant agrees it will account for GST on amounts received for the supply of transport paid for by a Transit Card or a contactless payment card on receipt of such amounts from Waka Kotahi as the stakeholder.
- The Participant agrees it will account for GST on amounts received for the issue of Transit Products when Waka Kotahi releases such amounts from its nominated stakeholder account to a Participant's nominated account.

## Services agreements

- 9) Waka Kotahi also contracts with and manages Service Providers to facilitate the provision of the National Ticketing Solution. Waka Kotahi is the buyer and contracting party under each service contract for the benefit of itself and each Participant under the Participation Agreement.
- 10) Waka Kotahi has contracted the following service providers:
  - Merchant Acquirer - ASB Bank Limited (ASB);
  - Retail Network Manager - Activata Prepay Limited (Activata);
  - Ticketing Service Provider - Cubic Transportation Systems New Zealand Limited (Cubic); and
  - Transit Card Program Manager - Mastercard Prepaid Management Services (NZ) Limited (MPMS).
- 11) Under the Merchant Acquirer MSA, ASB is responsible for processing the fare payments received from contactless payment cards and Transit Cards and settling amounts into Waka Kotahi's stakeholder account as merchant.
- 12) Under the Retail Network Manager MSA, Activata is responsible for physical Transit Card sales and Top-ups through a network of retailers.
- 13) Under the Ticketing Service Provider MSA, Cubic is responsible for providing the Ticketing Solution platform services and equipment and being the system integrator for the Ticketing Solution.
- 14) Under the Transit Card Program Manager MSA, MPMS is responsible for manufacturing Transit Cards, replenishing retailer Transit Card stock, and administering Transit Accounts.

## The National Ticketing Solution

- 15) The National Ticketing Solution aims to improve public transport for New Zealanders by having:
  - a standardised approach to paying for public transport, providing a common customer experience no matter where a person is in the country; and
  - flexible options for payment, including new technology.
- 16) When a customer tags on and off public transport services, Cubic's systems will record the:
  - name of the transport operator;
  - total fare; and
  - date and time of travel.
- 17) This information will be used to distribute the fare revenue to the relevant Participant.

### Fare payment methods

- 18) The National Ticketing Solution will provide customers with three payment methods for public transport:
  - an existing bank issued contactless payment card (such as a debit card or credit card);
  - a physical Transit Card; or
  - a virtual Transit Card.
- 19) Customers can use their physical or virtual Transit Card or contactless payment card to "tag on and off" public transport. Tagging on and off refers to the customer's act of scanning a card at a card reader as they board and later alight from public transport. The Applicant expects most customers to use contactless payment cards rather than Transit Cards.
- 20) In addition, customers will be able to purchase Transit Products that include monthly or weekly passes and set trip passes (for example, 10-trip passes). Transit Products will be:
  - issued in paper form; or
  - issued as a scannable product on a device; or

- stored in a customer's Transit Account which will be linked to a contactless payment card or a Transit Card.

## Transit Cards

- 21) Customers will be able to purchase the right to use a physical or virtual Transit Card. Transit Cards will be linked to a Transit Account that can be pre-loaded with stored value and/or used to access Transit Products linked to the customer.
- 22) Transit Cards will be able to be purchased from physical retail stores, an online web portal, a mobile app, ticket vending machines, customer service centres and contact centres.
- 23) MPMS will be responsible for producing the physical and virtual Transit Cards. This includes ensuring the cards are capable of contactless payments and are linked to Transit Accounts with all the requisite payment abilities.
- 24) Activata will manage the network of physical retail outlets through which physical Transit Cards can be purchased and topped-up with stored value.
- 25) When purchased using the mobile app, Transit Cards will be represented as a virtual card, accessed on a mobile device, without the customer needing a physical Transit Card.
- 26) When a customer receives a Transit Card, the Transit Cards will remain owned by Waka Kotahi which will grant the right to use the card to the customer. Waka Kotahi's ownership of the Transit Cards is set out in cl 23 of the Transit Card Program Manager MSA and will be confirmed in the terms and conditions of use. As the owner of the cards, Waka Kotahi will receive all payment proceeds for the rights to use the Transit Cards.
- 27) Where MPMS issues a Transit Card to a customer, this will be in its capacity as an agent for Waka Kotahi (cl 14.1 of the Transit Card Program Manager MSA), and it will pay the proceeds into Waka Kotahi's nominated account.
- 28) Where Activata and its retailers sell the rights to a physical Transit Card, this will be in their capacity as an agent for Waka Kotahi (cl 14 of the Retail Network Manager MSA), and they will pay the proceeds into Waka Kotahi's nominated account. Clause 23.1 of the Retailer Network Manager MSA records that at no time will ownership in the Transit Card pass to Activata or any retailer.
- 29) Where Transit Cards are issued from a ticket vending machine, kiosk or customer service centre, it will be the relevant Participant's responsibility to ensure that if it

collects amounts, then those amounts are passed to Waka Kotahi (cl 9.2 of the Participation Agreement).

- 30) Where rights in a Transit Card are purchased online or from a contact centre, the sales amounts will be directly passed to Waka Kotahi.

### **Transit Account Top-ups**

- 31) Customers will be able to top up their Transit Accounts with stored value for future transport use. The stored value in the Transit Accounts will be accessible by the customers using a physical or virtual Transit Card when tagging on and off public transport.
- 32) Cubic will manage Transit Accounts and be responsible for ensuring Transit Account balances are updated at the time a Top-Up is made.
- 33) No interest will be payable to or by customers for any positive or negative Transit Account balance. Customers may apply for a refund where they:
- believe they have been incorrectly charged for a trip; or
  - require a full refund of a balance in a Transit Account (for example if they will no longer be requiring the account for public transport services).
- 34) The balance in a customer's Transit Account will be able to be used to pay for travel provided by any Transport Operator contracted to the National Ticketing Solution. Given the number of Transport Operators, it will not be possible to determine who the supplier of the transport will be at the time the stored value is loaded into a Transit Account.
- 35) A Transit Card may also be linked to concessions allowing particular groups discounted or free travel.
- 36) Top-ups will be able to be made by using physical retail stores, an online web portal, a mobile application, ticket vending machines, customer service centres, a driver console (cash only), ticket kiosks and contact centres.
- 37) Regardless of how a Top-up is made, the payment will be passed on to a Waka Kotahi nominated stakeholder account, and from there to EML Payment Solutions Limited (the BIN Sponsor) as stakeholder for Waka Kotahi, until the stored value is used to pay for transport.
- 38) EML Payment Solutions is sub-contracted by MPMS to provide payment solutions. Once transport is taken, the funds will be passed to Waka Kotahi, which (along with Cubic) will facilitate the amount due to each Participant and make payment.



## Contactless Payment Cards

- 39) Customers will be able to use an existing bank issued contactless payment card to pay for public transport. This will be by tagging on and off at card readers installed in the various modes of transport.
- 40) The contactless payment card may be physical (eg, a debit or credit card) or virtual (eg, where the customer's card is accessed through their mobile device using Google Pay or Apple Pay).
- 41) Customers will pay for the public transport that they take by way of a charge made directly to the bank account that is linked to their card.
- 42) The following parties will be involved in supplying and paying for travel under the contactless payment card method:
  - Cubic is responsible for gathering trip data from customers and providing fare calculations and trip information.
  - Mastercard Payment Gateway Services (MPGS) will assist Cubic in processing payments through the payment gateway.
  - ASB is responsible for facilitating payments from customer bank accounts and passing the funds to Waka Kotahi.
  - Waka Kotahi will act as a clearing house by administering fare revenue and paying the appropriate portion of fare revenue earned to each Participant.
  - Transport Service Owners (eg, Public Transport Authorities) will be responsible for the procurement, provision and management of public transport services in a region or district.
- 43) Customers will not need to set up or register to use a contactless payment card to pay for public transport. Customers will be able to tag on and off public transport with any valid contactless payment card anywhere across the network. However, a customer can choose to register a Transit Account and link their contactless payment card to that account. This will also allow the customer to access Transit Products, such as monthly passes.
- 44) At the first tag of a contactless payment card on a particular day, a check will be run to ensure the customer's contactless payment card is valid. This check is performed using Cubic's system. When required, Cubic will send a pre-authorisation check to confirm the account is valid. A nominal charge will be applied to the customer's card account (eg, \$0.10). This charge will be reversed from the customer's card once the fare charge is made.

## Information sharing and payments

- 45) When a contactless payment card is used to tag on and off at a public transport reader, the relevant trip data will be captured by Cubic's systems.
- 46) Cubic will record and collate all trips taken by a customer throughout each Transit Day. The Transit Day is likely to be set to start and end at a time when public transport use is minimal (eg, from 3am).
- 47) At the end of each Transit Day Cubic will aggregate each customer's journeys over the previous 24 hours, calculate the lowest fare, and provide the "end of day fare calculation". Cubic will use this information to generate a payment file that it will pass (via MPGS) to ASB, enabling ASB to send a clearing/settlement file to each customer's respective card scheme operator (for example, Visa or Mastercard) in order to charge the issuing banks for the Transit Day's travel. ASB will credit these amounts into Waka Kotahi's nominated account.
- 48) At the end of each Transit Day, Cubic will provide a payment file to Waka Kotahi that will detail the amount of fare revenue generated throughout each Transit Day, and the apportionment breakdown of the fare revenue to be paid to each Participant. Waka Kotahi will use this information to facilitate the right payments to the right entity for the transport supplied.
- 49) It could take two or three days for the above process to be completed and for the Participants to receive payment.
- 50) Each Transport Service Owner may distribute payments to the various Transport Operators in its regions that have provided the public transport service. Where a Transport Operator is not directly engaged in the National Ticketing Solution, the revenue earned will be in accordance with its usual commercial contracts. Transport Service Owners retain responsibility and accountability for the ongoing management and operation of public transport services.
- 51) American Express (AMEX) cards will also be able to be used under the contactless payment card payment model. The process as described above will be similar, except AMEX will charge the customer's AMEX customer account and transfer these amounts to Waka Kotahi, rather than ASB fulfilling this role. It is also expected that Union Pay will operate in the same manner as AMEX for their contactless payment cards (agreement still to be signed).

## Transit Products

- 52) Transit Products broadly cover two types of products:

- fare products, including weekly or monthly passes and set trip passes (such as a 10-trip ticket) purchased using an online portal, mobile application, customer service centre, contact centre, ticket vending machine or ticket kiosk; and
  - smart tickets, being tickets for one transport ride, represented in a customer's Transit Account or physically printed, and purchased from an online web portal, mobile application, customer service centre, ticket vending machine or at the driver console.
- 53) The revenue from the sale of Transit Products will initially be transferred to Waka Kotahi as stakeholder. This includes where the relevant Participant has sold the Transit Product and collected the proceeds (as stakeholder). On receipt, Waka Kotahi will, based on information Cubic provides, allocate the proceeds and distribute the Transit Product revenue to the relevant Participant.
- 54) The Participant that owns the Transit Product sold will receive the full payment for that Transit Product at the time the funds are released from Waka Kotahi's stakeholder account.

## Conditions stipulated by the Commissioner

This Ruling is made subject to the following conditions:

- (a) The terms and conditions of use of a Transit Card will be consistent with the facts set out in the Arrangement.
- (b) Final versions of draft agreements will not be materially different to the versions provided to Inland Revenue.

## How the Taxation Laws apply to the Arrangement

Subject in all respects to any conditions stated above, the Taxation Laws apply to the Arrangement as follows:

- (a) The sale of the rights to use a Transit Card is a supply of services and is subject to GST under s 8(1). Under s 60(1), the supplier of these services is Waka Kotahi and not the relevant agent who sells the Transit Cards on behalf of Waka Kotahi.
- (b) Under s 5(11G), the topping up of a Transit Account is not treated as a supply of goods or services, and is not subject to GST under s 8(1).

- (c) The provision of public transport paid for with a contactless payment card or funds in a Transit Account is a supply of goods or services made by the relevant Participant and is subject to GST under s 8(1).
- (d) Under s 9(1), the time of supply for transport services paid for with a contactless payment card or Transit Card will be the time the funds are paid out of Waka Kotahi's stakeholder account to the relevant Participant that provided the service, provided that no invoice is issued for that supply.
- (e) Under s 5(11E) the sale of a Transit Product is a supply of a voucher and is subject to GST under s 8(1).
- (f) Under s 9(1), the time of supply of each Transit Product will be at the time funds are paid out of Waka Kotahi's stakeholder account to the relevant Participant, provided that no invoice is issued for that supply.
- (g) Under s 19K(10), the Participants will not be required to issue taxable supply information for the following taxable supplies:
  - the sale of the rights to a Transit Card;
  - the supply of a Transit Product; or
  - the supply of public transport.

## **The period or income year for which this Ruling applies**

This Ruling will apply for the period beginning on 20 October 2023 and ending on 30 June 2028.

This Ruling is signed by me on the 20th day of October 2023.

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**James McKeown**

Tax Counsel, 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.