



Your GST update from BWR September '10

# outside the square



GST update

## GST Change Special Edition

As you are all aware GST is increasing from 12.5% to 15% on 1 October 2010.

This guide sets out how the changes will affect you and your business and gives you practical advice on the steps you need to take to implement the change.

### It covers:

- The calculation
- Time of supply
- GST returns
- GST rate change adjustment
- Pricing
- Accounting Software
- Automatic Payments and Perpetual Invoices
- Penalties & Interest
- Fringe Benefit Tax
- Deregistration

## The Calculation

To calculate the GST to add on to a GST exclusive amount you multiply the amount by 15%.

$$\text{Amount inc GST} = \text{Amount ex GST} + (\text{Amount ex GST} \times 15\%)$$

E.g. \$10,000+GST would become \$10,000 + (10,000x15%) \$1,500 = \$11,500 GST Inclusive.

To calculate the GST component of a GST Inclusive price you multiply the amount by 3/23.

$$\text{GST component} = \text{Amount inc GST} \times 3/23$$

E.g. \$11,500 x 3/23 = \$1,500

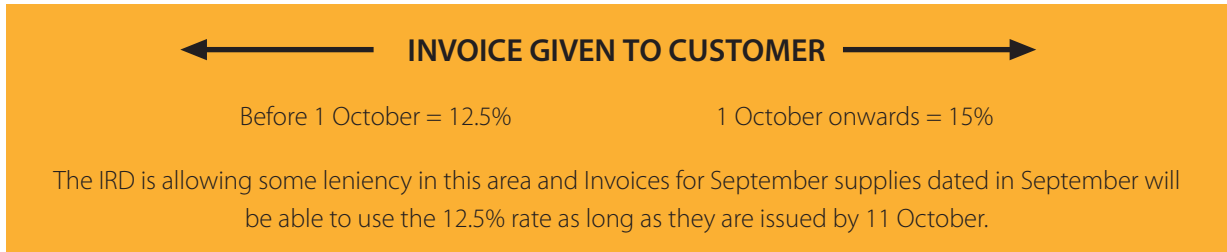


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## Time of Supply

The GST rate used is dependent on the "time of supply". Any transactions "supplied" before 1 October have a rate of 12.5% and any transactions on or after 1 October are at 15%. The general rule for time of supply is the earlier of an invoice being issued or payment being made. The date an invoice is issued is the date it is posted or given to a customer not the date at the top of the invoice.



## Special "time of supply" rules

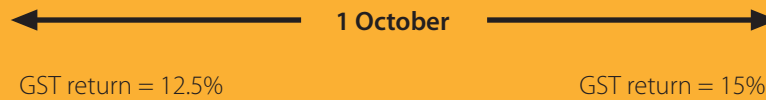
There are special time of supply rules for specific transactions and there are also changes being made to the GST act to alter the rules for specific transactions. Some common examples of the time of supply for special supplies are listed below.

- **Associated Persons** - When the goods are uplifted or the services performed.
- **Door to Door Sales** - 8 days after the agreement is signed.
- **Layby Sales** - When the goods are uplifted by the customer. IRD are amending the time of supply rules so that Layby payments made prior to 30 September will be at 12.5% and after at 15% provided the contract was entered into prior to 20 May.
- **Coin Vending Machines** - When the coins are removed from the machine.
- **Agreement to Hire** - Earlier of payment due date or date payment made.
- **Services with Periodic Payments (e.g. Electricity & Telephone)** - Earlier of payment due date or date payment made. IRD are amending time of supply rules for these transactions as well. If the invoices are issued before 1 October and payment is due within 60 days they are able to use the invoice date as the time of supply and only charge GST at 12.5%.
- **Successive supplies (e.g. Insurance Premiums paid in instalments)** - Earlier of payment due date or date payment made. IRD are amending time of supply rules for these transactions as well. As long as the contract is for 12 months or less and there was an option to pay upfront GST will only be charged at 12.5%. You will continue to claim the payments as they are made and will have to include all outstanding payments at 30 September in your GST rate change adjustment.
- **Contract Progress Payments** - Earlier of Invoice or Due Date or Date of Payment.
- **Hire Purchase Agreements** - Date agreement entered into.
- **Finance Leases** - Earlier of payment due date or date payment made. IRD are amending time of supply rules for these transactions as well. Finance leases will be able to use the 12.5% rate for 5 years so long as the lessor notifies the lessee it has elected to do so.



## GST returns

GST returns for periods up to 30 September include GST at 12.5% and from 1 October at 15%.



If your GST return spans 1 October (e.g. 2 monthly return ending 31 October) you will need to file a transitional return. The transitional return has 2 parts to account for the change. Part 1 covers your transactions from the start of your period to 30 September and Part 2 covers transactions from 1 October to the end of your period.



## GST rate change adjustment

GST PAYMENTS BASIS	ADJUSTMENT
Payments (cash) basis	You need to make an adjustment for your Debtors and Creditors at 30 September
Hybrid basis	You need to make an adjustment only for your Creditors at 30 September
Invoice basis	No adjustments required

For those on the payments or Hybrid basis the adjustment is required because you will have sold or purchased goods and services prior to 1 October that have had GST applied at 12.5%. When the cash is paid or received after 1 October it will be included in your GST return and GST paid or claimed at 15%. The adjustment that is made will correct this imbalance.





## *GST rate change adjustment continued...*

**The calculation is (Creditors – Debtors) / 51.75**

***For example your adjustment should look something like this:***

Creditors/Accounts Payable at 30 September 2010	\$9,880.00
Debtors/Accounts Receivable at 30 September 2010	\$3,500.00

***Rate change calculation:***

Creditors \$9,880.00 – Debtors \$3,500.00 = \$6,380.00 / 51.75

Adjustment amount = \$123.28.

Because the creditors amount is larger than the debtors amount the adjustment is a debit entered in box 9 of your GST return.

The figure of 51.75 is calculated by subtracting the old GST fraction from the new GST fraction.

$$3/23 - 1/9 = 4/207 = 51.75$$

If creditors are bigger than debtors the amount will be additional tax to pay and will be included in Box 9 of the GST return.

If debtors are bigger than creditors the amount will be a credit and will be included in Box 13 of the GST return.

**The IRD will be sending out calculation forms for the adjustment with the GST returns.**

If we prepare your GST returns for you we will need details of your debtors and creditors at 30 September in addition to the normal records you provide us with.

If you prepare your own GST return and would like us to review your adjustment calculations before you file the return, we would be more than happy to do so.

When compiling your list of debtors and creditors at 30 September you will have to make sure you include all supplies that have a GST rate of 12.5% added. This may include transactions that are different from your usual trade creditors and debtors. Any transactions that have special rules such as monthly insurance premiums will have to be added to creditors. Some other creditors such as your power or phone bills may have GST applied at 15% and these will have to be removed from your creditors. If GST returns are prepared using bank statements or banklink, cash sales taken on or before 30 September but not banked until on or after 1 October 2010 will need to be added to Debtors.

If you discover an invoice paid or received after 1 October that has only had 12.5% GST applied to it and it was not included in your 30 September adjustment, you will have to adjust this in a future return.



## Pricing

If you wish to keep the same profit margin on goods sold you will need to increase your prices to account for the increase in GST. Now is a good time to review prices and margins. If prices change you will need to change shelf prices and labels as well as brochures and websites. Till receipts will also need to be altered to show the correct amount of GST.

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## Accounting Software

Accounting software will need to be updated to account for the change in the GST rate.

The following list sets out the requirements and costs for the software that we support within the office. If your current package is unable to handle the change you should consider moving to one of the programmes on the list.

PRODUCT	UPGRADE REQUIRED	COST
<b>MYOB</b>	Yes (v19.5)	On Support - Free Not on Support \$99 to \$229
<b>Accomplish Cash Manager</b>	Yes	On Support - Free Not on Support \$250 to \$336
<b>Concept Cash Manager</b>	Yes (annual licencing)	Premier Pac - Free Otherwise \$400pa
<b>Banklink</b>	Yes	Free

We will contact you if we know what software you use to ensure you are prepared for the change in GST rates. If you have not heard from us and would like to discuss your situation, please contact Heidi Marillier on 873 8037 or [heidi@bwr.co.nz](mailto:heidi@bwr.co.nz)

If you are using spreadsheets for cashbooks, reports, invoicing and workpapers you will need to alter the formulae to account for the new rate of GST.

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## Automatic Payments and Perpetual Invoices

Contracts already entered into that span the change in rates are increased to take into account the change in the GST rate. If the contract prices are GST Exclusive the price will automatically increase. If the contract prices are GST Inclusive the price will gross up unless there is a specific clause in the agreement that precludes it.

If you pay a regular amount for a supply such as rent of a commercial building by automatic payment you will need to increase your payment amount from 1 October. The person making the supply will have to provide you with a new tax invoice showing the GST at the new rate.

## Penalties and Interest

If a business has taken reasonable efforts to comply with the new GST rate but has made an error or filed their return late due to the change, late payment and late filing penalties and use of money interest will be remitted. This applies to all GST returns that include 1 October and monthly and 2 monthly returns that end on or before 31 December 2010. The IRD system will automatically charge the penalties as usual and a request will have to be made to them in writing to have them remitted. If you are charged penalties, please advise us and we will apply to have them written off by our agent account manager at the IRD to speed up the process.

## Fringe Benefit Tax

GST payable on fringe benefits will also be affected. Fringe benefits are deemed to be supplied at the time the benefit is granted. The GST payable calculation for quarterly filers will change from the December quarter. Annual filers will have a split calculation.

## Deregistration

If you have ceased trading or are earning under the registration threshold of \$60,000 and are considering deregistering for GST you should do so before 1 October 2010. Any assets kept on deregistration must have GST paid on their market value. If deregistration occurs prior to 1 October GST is 1/9<sup>th</sup> of value after this date it is 3/23rds.

### FREE SOFTWARE CHECK-UP

Not all accounting software packages currently used are capable of managing the forthcoming GST rate change.

Contact Matt Bron or Heidi Marillier on 06 873 8037 for a free check-up.

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