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NEWSLETTER

GST - October 2010 Special Issue

The purpose of this newsletter is to provide guidance on the required procedures for correct accounting and GST return preparation to cope with the increase from 12.5% to 15% effective 1st October 2010.

THE CHANGE:

OLD 12.5% GST Rate:

- ✚ \$184 plus 12.5% GST (\$23) = **\$207 GST Inclusive**, or to restate another way the GST inclusive price was 112.5% of the GST Exclusive price example: ($\$184 \times 112.5\% = \207).
- ✚ To find **GST content was 1/9th of the GST Inclusive price**, example: $\$207 \div 9 = \23 GST
- ✚ To find **GST exclusive price was 8/9^{ths} of the inclusive price**, example: $\$207 \times 8 \div 9 = \184 GST Exclusive



NEW 15% GST Rate:

- ✚ \$180 plus 15% GST (\$27) = **\$207 GST Inclusive**, or to restate another way the GST inclusive price is 115% of the GST Exclusive price ($\$180 \times 115\% = \207).
- ✚ To find **GST content now is 3/23rds of the GST Inclusive price**, eg $\$207 \times 3 \div 23 = \27 GST
- ✚ To find **GST exclusive price now is 20/23rds of the inclusive price**, eg $\$207 \times 20 \div 23 = \180 GST Exclusive

IRD have stated that using the fraction method (ie, multiply by 3 and then divide by 23) is the only method that gives an accurate answer of GST content. The alternative of dividing by 7.6666 will produce inaccurate answers depending the size of the original number.

TRANSITION - Time of Supply:

The GST rate to apply is governed by the Time of Supply Rules (sec 9 of the GST Act).

The General Rule is that **“time of supply is earlier of the time an invoice is issued or the time a payment is received in respect of that supply”** – final September dated invoices **MUST** be issued by 11th October 2010 and can apply the old 12.5% GST rate if the services/goods were provided in full prior to 1st October. **Thereafter all invoices must be dated October and GST is at 15%.**

Where you need to correct/adjust previously issued invoices these **Credit Notes must be applied at the same GST rate applying to the original invoice.**

Special Time of Supply rules apply for supplies to associated parties, hire agreements, periodic or progressive supply of goods and services. If you have any particular concerns please contact us for assistance.

Hire purchase Agreements: This is sometimes misunderstood and wrongly accounted for. A hire purchase contract is a “financial contract”. The GST on the purchase should be claimed in full at the time the contract is commenced (and not including the finance cost) **AND GST MUST NOT BE CLAIMED ON THE MONTHLY HIRE PURCHASE PAYMENTS.**

TRANSITION - GST Rate Change Adjustment (GST 105):

GST Registered taxpayers need to be aware of the required process for accounting and GST return completion to cope with the change from 12.5% to 15% effective from 1st October 2010.

For taxpayers whose GST Return Period ends 30 September 2010 this will be the final return calculated using the old 12.5% maths (ie, divide by 9).

For taxpayers whose next GST period includes a month (or months) before and after 1st October, your return form will have two separate parts – up to 30th September using old 12.5% maths (ie, divide by 9); and period after using new 15% maths (ie, multiply by 3 then divide by 9).

GST Rate Change Adjustment (GST 105 form):

Where you are registered to use the PAYMENT or HYBRID Accounting Basis your September period will also need to include a special one-off GST Rate Change Adjustment Calculation. The purpose of this adjustment is to account for the difference between 12.5% and 15% on all your pre 1st October GST transactions that will be included in later accounting periods (when paid). This assumes, and you are expected, to include these transactions in October or later months accounting (when payment occurs) using the new 15% ($3/23^{\text{rds}}$) GST rate even though the invoices were issued at 12.5%.

PAYMENT BASIS ACCOUNTING:

- **PAYABLES:** List (supplier name, invoice/statement date, GST inclusive amount) all your September dated invoices incurred for Purchases/Expenses that remain unpaid by you as at 30th September 2010 (called Accounts Payable or Creditors). **Total of list is entered in BOX A.**
- **RECEIVABLES:** List (customer name, invoice/statement date, GST inclusive amount) all your September dated invoices issued for Sales that remain uncollected as at 30th September 2010 (called Accounts Receivables or Debtors). **Total of this list is entered in BOX B.**
- **BOX C is the sum of Box A minus Box B. Box D is calculated as Box C divide by 51.75. This Box D answer is your GST Change Adjustment Amount.**
 - If Box A is greater than Box B this is GST to Pay and you enter this amount into BOX 9 of your September GST Return Form.
 - If Box A is less than Box B this is GST Refund and you enter this amount into BOX 13 of your September GST Return Form.

HYBRID BASIS ACCOUNTING:

- **PAYABLES:** List (supplier name, invoice/statement date, GST inclusive amount) all your September dated invoices incurred for Purchases/Expenses that remain unpaid by you as at 30th September 2010 (called Accounts Payable or Creditors). **Total of list is entered in BOX A.**
- **Box B is left blank** (because on the Hybrid Basis all your September invoiced income is already included in your GST return).
- **BOX C is the same as Box A. Box D is calculated as Box C divide by 51.75. This Box D answer is your GST Change Adjustment Amount.**
 - this is GST to Pay and you enter this amount into BOX 9 of your September GST Return Form.

IMPORTANT REQUEST:

If we are engaged to complete your GST returns we will need copies of your completed lists of 30th September 2010 Accounts Payable and Accounts Receivable **no later than by 20th October 2010** (for GST return periods ended 30 September 2010 and due for filing by 28th October 2010).

All GST accounting transactions and adjustments affect your annual financial accounting and Income Tax.

If you complete your own GST Returns, we will still require copies of your completed lists of September 2010 Payables and Receivables & your GST 105 Rate Change Adjustment Calculation Sheet. We urge you to send us copies of these immediately you have completed them to avoid the possibility of not being able to find them when required as part of the necessary accounting records to complete your 2011 financial statements.

GST REFRESHER:

To ensure you are complying with your GST obligations **you must have a clear understanding of:**

- **What is GST Activity**, and what activity is EXEMPT or ZERO RATED activities for GST
- **What is your ACCOUNTING BASIS and RETURN PERIODS** for preparing and filing GST returns (these are shown on your GST return forms)

These key settings were established when your GST registration was completed and Inland Revenue will be assuming that your accounting and GST compliance procedures will be consistent with your registered Accounting Basis and Return Filing Periods.

You must also understand that it is a requirement that you have completed (and retain for IRD audit if requested) proper accounting records showing a full audit trail of accounting entries and with totals matching to the figures completed in the GST forms for Outputs/Sales and for Inputs/Purchases & Costs. In addition, you must have appropriate filing systems to ensure you can prove that for all items claimed you had the appropriate Tax Invoice at the time you filed your return to confirm that you have claimed these in the correct return period based on your registered Accounting Basis.

You have an obligation to keep all accounting records for 8 years.



GST REGISTERED ACTIVITY

Once registered for GST you are required to account for all activities within the scope of your registration. However, this does not include activities that are specifically excluded from the GST regime, namely, "financial services", "residential", or "personal" activities.

You must include all income from your GST Activities (including asset sales), but these do not include income from Exempt (eg, residential rental income, employment income/wages) or Zero Rated Activities (ie, Exports).

You only include Purchases, Expenses, Assets Purchased **relating to your GST activities** (including zero rated activity). You must not claim GST inputs on expenses relating to any GST Exempt Activity (eg, costs of residential rental properties or personal dwellings or private expenditure) for GST).

Change of Use

Where GST Activity assets cease to be used as business assets and become predominantly private use assets, you are required to include an amount for the deemed sale of these from your GST Activity and pay the GST on this (calculated at the lesser of original cost or current market value). Common examples of this are Motor Vehicles claimed as business assets and later reverting to being used privately, or properties purchased as GST registered Homestay Activities and then reverting to being properties rented out as residential rental properties (exempt activity).

Where the change of use is total and there is a permanent cessation of any GST activity, this will trigger a requirement to de-register from GST and any assets/property retained must be valued at current market value and GST paid on this deemed sale value.

GST RETURN PERIODS

Your GST return periods will have been established at the time of registration (or subsequently changed). **The default is TWO MONTHLY return periods** with your 6th return finishing on your annual balance date for Income Tax Accounting (usually 31 March).

As an alternative you may register to file GST returns **MONTHLY**.

Also, provided your annual GST inclusive sales are expected to be below \$500,000 you may register to file GST returns **SIX MONTHLY** with your 2nd return finishing on your annual balance date for Income Tax Accounting (usually 31 March). The advantage of Six Monthly filing is reduced compliance cost.

GST ACCOUNTING BASIS

The default GST Accounting basis is INVOICE BASIS, however this has significantly higher compliance cost because it requires full accounting systems that include Accounts Receivable ledger, Accounts Payable Ledger, and General Ledger. Under the Invoice Basis you account for all Income and Expenditure in the GST period that the transactions are dated, ie when incurred regardless of when paid or collected.

By far the most common GST Accounting basis used is PAYMENT BASIS. This is available to GST registered entities with annual GST inclusive sales below \$2 million (or above \$2 million sales where the IRD Commissioner accepts the nature and volume of activity and accounting systems used are such that Payment Basis is the most appropriate method to use).

The Payment Basis is the most cost effective method of accounting compliance and ensures GST is only paid to IRD in the period income is collected or only claimed in the period expenditure is paid.

The Hybrid Basis is essentially INVOICE basis for Income and PAYMENT basis for Expenditure. The advantage is compliance cost minimisation from not having to maintain an Accounts Payable Ledger. The disadvantage is reduced cashflow as GST is paid to IRD earlier than either of the other two methods.

GST Outputs/Output Tax

You must include all income and asset sales other than for activities specifically excluded under the definition of ZERO RATED or EXEMPT supplies.

GST Inputs / Input Tax

You can only claim items within the definition of taxable activity and where these items are above \$50 you must have a Tax Invoice (ie, from a GST registered supplier showing their GST number).

You can include purchases of second hand goods from unregistered people (except for items specifically excluded such as livestock).

Exempt Items: You cannot claim the following:

- items defined as EXEMPT activities (even though you may have Tax Invoices for these). For example, Rates or Repairs on properties that are used for Residential Dwellings (including rental properties).
- items classified as "financial services". This includes bank fees, interest, loan payments, hire purchase payments, life insurance.
- Donations
- Wages paid.
- items used for personal non-business use.

If you have any questions about the newsletter items, please contact us, we are here to help

Website Links:

We list websites providing assistance on GST matters, and in particular assistance with the change from 2.5% to 15% GST rate.

Inland Revenue:

GST Rate Change Calculator

<http://www.ird.govt.nz/changes/gst/businesses/adjust-rate/budget-gst-decision-tree-q1.html>

GST

<http://www.ird.govt.nz/gst/>

GST Guide Download Page

<http://www.ird.govt.nz/forms-guides/title/forms-g/ir375-guide-gstguide.html?id=righttabs>

GST Change Advisory Website

<http://www.gstadvisory.govt.nz/>

MYOB GST Change Resource Centre

<http://myob.co.nz/business/gst-change-2010-1258091530373>

- includes video presentations and useful GST Change Checklists.