

GST EDITION

GST Changes – How it affects your business

September 2010

Goods and Services Tax – Up it Goes

On 1 October 2010 GST will increase to 15% which will produce both challenges and opportunities for businesses. Gone is the simple tax fraction of $1/9^{\text{th}}$. As of 1 October to calculate the GST component of the GST inclusive price, you'll need to multiply by 3 then divide by 23 or alternatively divide by 7.66666666.

There are many transitional issues that may affect your calculation of GST payable as a result of the rate increase. Here are the big ones:

1. Every business that is registered on the payments (cash) basis will need to make a GST rate increase change adjustment based on the difference between creditors and debtors in the 30 September GST return. For this reason, it's very important that you keep accurate records of what's owing to your business from customers (debtors) and what your business owes to suppliers (creditors) as at that date.
2. If your GST return period straddles 1 October, for example you file a two monthly return for the period September – October, you'll need to complete a GST transitional return (GST 104A). This will be sent to you by IRD.
3. Whether land sales attract GST at 12.5% or 15% will depend on whether the time of supply has been triggered prior to 1 October 2010. If you have a land transaction that may span 1 October, you'll need specific advice from us.
4. If you sell goods on layby, as long as a binding contract was in place prior to 20 May 2010 (budget night), payments received prior to 1 October 2010 can be accounted for at the old rate of 12.5%, but must be accounted for in the 30th September GST return. All remaining layby sales, where the goods are uplifted after 30 September, will attract the 15% GST rate.
5. Whether payments received under construction contracts will attract GST at 12.5% or 15% once again will depend on the time of supply. Please contact us.



Transitional Issues for those on the Cash Basis of Accounting for GST

From 1 October, all income and expenses that you enter on a GST return will be deemed to include GST at 15%. To allow for items that include only 12.5% GST, there will be an adjustment made in the 30 September GST return based on accounts receivable and accounts payable at that date (see example).

You should make a full list of all accounts receivable and payable and supply us with a copy.

GST ADJUSTMENT (Example)

Accounts Receivable at 30/9/10		\$13,500
Accounts Payable at 30/9/10		<u>\$ 9,000</u>
		<u>\$ 4,500</u>
* Divided by 51.75	=	<u>\$ 86.96</u> (Enter in Box 13)
* This is the same as:		
\$4,500 ÷ 23 x 3	=	\$586.96
Less \$4,500 ÷ 9	=	<u>\$500.00</u>
		<u>\$ 86.96</u>

If Accounts Payable are more than Accounts Receivable then the Adjustment is in Box 9.

TIME OF SUPPLY

- Important in determining rate of GST to be applied.
- Earlier of an invoice being issued, or any payment being made in respect of that supply.
- Invoice means document notifying an obligation to make payment.
- Where supply is before 1 October 2010, invoices can be issued up to 11 October at 12.5% - provided dated 30 September and payable in 60 days.

CALCULATING THE GST COMPONENT

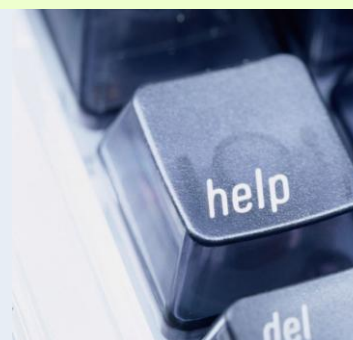
- Prior to the GST rate increase, to calculate the GST component in a GST inclusive price is as simple as dividing by 9
- When GST increases to 15%, you will now need to multiply by 3, then divide by 23
- For example:
- Price is \$1,000 plus GST, = \$1,150 incl GST
- GST component is $\$1,150 \times 3 / 23 = \150
- GST return forms will require this calculation in future.

GST

We Can Make the Change Easier for You

If we are preparing your GST returns we will take care of any transitional adjustments and returns and advise you of any additional information we may need. We're expecting an influx of client queries around the GST rate increase in October, so we'll be requesting your GST records much earlier.

If you are preparing your own GST returns we suggest that we check your calculations to ensure any transitional adjustments have been correctly applied. We have some forms to help with this.



**We have copies of slides shown at our recent GST Seminar.
If you were unable to attend and would like a copy, please let us know.**

Personal and Company Tax Rates Down They Go

Personal income tax rates have been reduced from 1 October 2010, summarised in the following table:

Current and New Tax Rates

Taxable Income	2009/2010	2010/2011*	2011/2012
0 – 14,000	12.5%	11.5%	10.5%
14,001 – 48,000	21.0%	19.25%	17.5%
48,001 – 70,000	33.0%	31.5%	30.0%
Over 70,000	38.0%	35.5%	33.0%

* In 2010/2011 the rates are composite rates

The Company income tax rate decreases from 30% to 28% effective from the start of the 2011/2012 tax year i.e. 1 April 2011 for most companies.



Disclaimer

This publication has been carefully prepared, but it has been written in general terms only. The publication should not be relied upon to provide specific information without also obtaining appropriate professional advice after detailed examination of your particular situation.