

GST Changes from 1 October 2010

GST Returns

For registered persons who do not have a taxable period beginning 1 October 2010 a GST return will have to be filed in two parts. Part one will reflect the period from the first day of the taxable period to 30 September 2010 and part two will reflect the period from 1 October 2010 to the end of the taxable period.

These two returns will both be due to be filed, and any payments to be made, as normal.

For example, if a registered person has a two monthly GST taxable period beginning on 1 September 2010 and ending on 31 October 2010, they will be required to file a GST return for the month ended 30 September 2010 and the month ended 31 October 2010. The returns are to be filed and payment to be made on or before 28 November 2010.

Payments Basis Adjustment

For persons registered on the payments basis of accounting for GST at the time of the GST rate change, an adjustment is required to be included in the return for the period ended 30 September 2010.

If you are registered on the payments basis, GST is required to be accounted for at the rate of 12.5% in respect of payments made or received up until 30 September 2010. GST is to be accounted for at the rate of 15% in respect of payments made or received on or after 1 October 2010.

However, to reflect the fact that some of the receipts and payments received and paid on or after 1 October 2010 relate to transactions that have a time of supply occurring before this date, an adjustment is required to be made.

The following method is used to calculate the adjustment:-

- Step 1** As at 30 September 2010 add up the GST inclusive amounts owing to you (debtors) which have had GST charged at the rate of 12.5%
- Step 2** As at 30 September 2010 add up the GST inclusive amounts owed by you (creditors) which have had GST charged at the rate of 12.5%
- Step 3** deduct the amount calculated in step 1 from the amount calculated in step 2.
- Step 4** Multiply the result from step 3 by 4/207
- Step 5** If the result is a positive amount include it in box 9 of the GST return covering the period ended 30 September 2010. If the result is a negative amount include it in box 13 of the GST return covering the period ending 30 September 2010.

As the calculation required details of debtors and creditors as at 30 September 2010 you will need to maintain sufficient records to determine these. We will require these details when preparing your 2010 financial statement and tax returns. Therefore, please keep

these details with the relevant GST return. (Schedules are available from the Questionnaire tab on this web site.)

If a registered person in the payments basis writes off a debt as bad on or after 1 October 2010, and the debt was included in the payments basis adjustment, an amount equal to $4 / 207$ multiplied by the GST inclusive amount of the debt written off has to be included in box 9 of the GST return in the period in which the debt was written off.

If a registered person on the payments basis issues a debit or credit note on or after 1 October 2010, and the supply was included in the payments basis adjustment, an amount equal to $4 / 207$ multiplied by the GST inclusive amount of the debt or credit note has to be included in the GST return in the period in which the debit or credit note was issued. If a credit note has been issued the adjustment goes in box 9 of the GST return. If a debit note is issued the adjustment goes in box 13 of the GST return.

If you are required to make a payments basis adjustment and would like assistance with this please contact us.

Invoice Basis

If you file GST returns on an invoice basis no “adjustment” needs to be calculated, but you will still have to file two GST returns over the September 2010 / October 2010 period as outlined above.

For persons registered on an invoice basis the rules regarding the issue or receipt of debit or credit notes, or writing off bad debts, are complex where the time of supply for the original transaction occurred pre 1 October 2010 but the debit or credit note was issued or received, or the bad debt written off, post 30 September 2010. If this applies to you we suggest you contact us to discuss how to account for these.

Computer Systems

Most accounting and reporting systems will require changes to accommodate the new rate of GST. There may be issues incorporating these changes and ensuring the treatment of payment basis GST returns are correct.

Changing the default GST rate in the system may result in the change being applied retrospectively, causing problems with reconciliation.

One way to prevent this from happening would be to add a new GST code or rate to the system. However, some less sophisticated accounting systems may only allow one rate of GST to be used at any one time. If this is the case then we need to talk.

Computer systems will need to be able to operate two different GST rate codes simultaneously given invoices with old and new rates will be processed for some time after any rate change. Alternatively, the system would allow staff to override the GST automatically calculated when an invoice is processed. The system must also be able to accommodate the issue of credit notes at both the old and new GST rates.

When a GST rate has been assigned to individual suppliers or customers, it may be necessary to manually change each record which could involve updates to thousands of records.

Any changes made to systems should be tested before going "live". Where possible, checking of proposed changes should be carried out on non live data. This should involve the issue of dummy tax invoice and credit/debit notes as well as dummy accounts payable processing. Also GST reports should be reviewed, particularly if registered on a payment basis.

If you do not use a package we are familiar with, we suggest you contact your software supplier to discuss their readiness to implement the GST rate change.

Spreadsheets

A number of businesses use spreadsheets which calculate GST. You will need to review these spreadsheets to determine how the GST is calculated. If the GST rate is hardcoded into formulas these will have to be amended.

The increase in the rate of GST is a timely reminder as to why you should not hard code numbers into formulas in spreadsheets. Instead the GST rate should be entered on a data input page so that if this rate changes in the future only one change needs to be made to the spreadsheet.

Automatic Payments

If you have automatic payments set up these will need to be changed if the supplier increases their price.

Entertainment

If a GST registered person incurs expenditure on entertainment that is limited to the 50% deduction for income tax purposes, then GST is required to be paid to the Inland Revenue Department on the non deductible portion of the expenditure. Registered persons have an option for the 2011 tax year of applying both the 12.5% and 15% rates to the expenditure or applying the 15% rate to all of the expenditure. For expenditure incurred pre 1 October 2010 the registered person can apply the GST rate of 12.5% and the GST rate of 15% to expenditure incurred post 30 September 2010. Alternatively, to reduce compliance costs, registered persons can apply the 15% rate to all entertainment expenditure incurred in the 2011 tax year.

Change in Use Adjustments

If a GST registered person acquires goods or services for use in a taxable activity, but the goods or services are also used for making exempt supplies or for personal use, then a change of use adjustment is required to be made.

If goods and services are acquired principally for business purposes but are also used for making non taxable supplies (that is, for exempt or private purposes) the change in use adjustment will require GST output tax to be paid to the Inland Revenue Department. Conversely, goods and services acquired principally for exempt or private purposes but also used for business purposes will enable a GST deduction from output tax to be made.

In some instances the change in use adjustment is calculated and made in a GST period after the goods or services were acquired. The GST rate that applies when calculating the adjustment is the rate that applies when the change in use occurred, not the rate that applies at the time of making the adjustment. However, to reduce compliance costs for output tax adjustment (i.e. Where there has been a change from taxable to exempt use) tax payers will have a choice of whether to apply the old or the new GST rate.

Interest, Penalties and Late Filing

If a registered person incurs a late payment or late filing penalty or use of money interest in respect of the transition to the new GST rate then the interest and penalties can be remitted. This only applies if a GST error arises prior to 31 December 2010 and is due to the transition to the 15% rate.

Note however, that penalties will not be remitted if the registered person is subject to a shortfall penalty (not taking reasonable care, unacceptable tax position, gross carelessness, abusive tax position, tax evasion).

Calculating GST

Previously to calculate the GST content of a GST inclusive amount you would divide the amount by 9. To calculate this when the GST rate changes to 15% you multiply the amount by 3 and divide by 23.

For example, if the GST inclusive amount is \$115 you calculate the GST component by $\$115 \times 3 \div 23 = \15 .

To calculate the GST exclusive value from the GST inclusive amount you previously divided by 9 and multiplied by 8. From 1 October 2010 you multiply the amount by 20 and divide by 23

For example, if the GST inclusive amount is \$115 you calculate the exclusive value by $\$115 \times 20 \div 23 = \100

If you know the GST content and want to calculate the GST inclusive amount you previously multiplied the amount by 9. From 1 October 2010 you multiply the amount by 23 and divide by 3.

For example, if the GST content is \$15 you calculate the GST inclusive amount by $\$15 \times 23 \div 3 = \115 .

If you know the GST content and want to calculate the GST exclusive amount you previously multiplied the amount by 8. From 1 October 2010 you multiply the amount by 20 and divide by 3.

For example, if the GST content is \$15 you calculate the GST exclusive amount by $\$15 \times 20 \div 3 = \100 .