



Newsletter July 2010

Increase in GST - What you Need to Do!

1. If you are not registered for GST? Nothing other than decide whether it is worth bringing any major expenditure forward to before 30 September 2010 to save the 2½ % extra GST.
2. If you have contracts which span the post 30 September 2010 period, check you have the right to increase the GST rate. (There are limited rights to increase GST included in the GST Act).
3. Check your system can handle the increase in the GST rate. The most accurate way to calculate the GST content of any invoice paid for Input claim purposes, is to multiply the invoice total by 3 and divide by 23.
4. You need to ensure your system can handle credit notes issued post 30 September 2010 at the old rate.
5. If selling property (in particular) near 30 September 2010, you need to be aware of when the time of supply is triggered, as this date determines the rate at which GST is to be charged.

e.g. a) If a deposit is paid and applied for the vendors benefit on 30 September 2010, the relevant GST rate is 12½ %, even if settlement and the issue of tax invoice are not until well after 30 September 2010.

b) If a deposit is paid to a stakeholder prior to 30 September 2010 but not applied to the vendors benefit until after 30 September 2010 and no tax invoice is issued, GST will need to be charged at 15%.
6. If you are paying rent or any other periodic payments (for which usually only one tax invoice is issued at the start of the contract) you will need to obtain a new tax invoice showing GST at 15%.

You are not entitled to a GST claim if the wrong rate of GST is shown on the tax invoice.

7. Taxpayers registered on a "Payments" basis will need to do an adjustment for debtors and creditors outstanding at 30 September 2010.

This adjustment involves three steps:

- a) calculate the total owing to creditors for taxable supplies received at 30 September 2010 (say, \$2,330);
- b) deduct the amount owing by debtors for supplies made by you before 30 September 2010 (say, \$16,125);
- c) multiply the result of the above by the old tax fraction (1/9th) minus the new tax fraction (3/23rd)

then adjustment is

$$2330 - 16125 \times \frac{1}{9} - \frac{3}{23} \text{rds} = (13,795) \times \frac{4}{207} \\ = (\$266.57)$$

As the result is a negative it should be entered in Box 13. If it were a positive (i.e. creditors exceeded debtors) it would go in Box 9.

Then all receipts and payments made after 30 September 2010 are accounted for using the new GST ratio.

8. If your GST period straddles 30 September 2010 you will need to file two returns.
9. Any contract entered into before 30 September 2010 will have GST at the new rate if neither an invoice is issued, nor payment made until after 1 October 2010.
10. Rates and any other local/central government costs are automatically increased to take account of the new GST rate. You can elect to pay rates early to reduce the effect of the higher GST rate.

11. If your business issues vouchers or gift cards you need to determine how you will handle GST rate increase.
12. If using your own in-house accounting software, will your software be able to cope with a change in GST rate mid way through the year. If in doubt contact your software supplier.
13. The increase in GST will result in higher working capital requirements, particularly if you are registered on an Invoice basis. Can you fund the extra cash required?
14. Depending on the type of goods you sell, you may see an increase in demand in the period prior to 30 September 2010 and a drop in demand immediately after 1 October 2010. Have you planned for this?
15. If you are a retailer all stock will need to be repriced.
16. The adjustment for GST on Non Deductible Entertainment Expenditure can still be made at 12½ % for any entertainment expenditure incurred before 1 October 2010.
17. Watch your advertising material reflects the new GST rate - may be a real issue if you advertise prices on a GST inclusive basis.

Other GST Changes

It was announced in the budget, that in order to reduce GST fraud, transactions between GST registered persons involving land will be zero rated.

The bill including this change has yet to be introduced to Parliament.

GST on Imports

Invoice based GST payers can claim GST charged on imported goods in the month the goods are imported.

This is because the import entry documentation is deemed to be a tax invoice.

The Government has set up a task force to look at the issues arising from the increase in the GST rate. It is possible some of the above issues may be affected by what the task force decides. If you are affected by the change in GST please contact us nearer the 30 September 2010 to confirm what you need to do.

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