

If you're wondering how you are going to manage the transition from a GST rate of 12.5% to 15% on 1 October, here are some simple pointers to help you get it right.

The purpose of this document is to provide an overview of the GST rate change and how the change could impact your business practices. It is not intended to be a description of all of the GST changes.

Key Points

On 1st October 2010, the rate of GST on sales and purchase transactions will increase from 12.50% to 15%.

If your next GST Return period would not normally end on 30 September 2010, then you will be required to submit a special one-off 2-part return, covering the period up to 30 September and the period from 1 October onwards.

If your GST basis is Cash (Payments) basis, then you may have to calculate a transitional adjustment.

Time of Supply

How do you determine when the new rate should be used? The rate is set by the time of supply. A supply is considered to take place at the earlier of:

the date an invoice is issued, or

the date any payment is received by the supplier.

If the time of supply is before the 1 October, then the applicable rate will be 12.5%. If the time of supply is after 30 September then the applicable rate will be 15%.

Transitional Return

For those businesses whose next GST return period spans the 30th September 2010, they will need to complete a special 2-part GST Return (called a Transitional Return) for the first period ending on or after 1st October. The first part will cover the return period up to and including 30th September, and the second part will cover the return period from 1st October 2010 to the end of their standard GST period. In the first part, transactions will be subject to GST at 12.50%. For the second part, transactions will be subject to GST at 15%.

Calculating the GST component of a supply using the 15% rate

Use the fraction $15 / 115$ or $3 / 23$

Alternatively, you can divide the price by 7.6666 recurring. However, this may result in rounding differences if the recurrence is not long enough.

Transitional Adjustment – Payments or Hybrid basis for GST

If you are registered for GST on a Payments or Hybrid basis you may need to record a transitional adjustment in your GST return for the period ending on 30 September 2010.

The adjustment will need to take into account supplies where the time of supply is before the 1 October 2010, but payment is yet to be made or received. An adjustment is required because, in later return periods, when a payment is received or made, those payments must be dealt with at a GST rate of 15%, even though GST at 12.5% was charged on those supplies. The adjustment in the return period ending 30 September 2010 will ensure that any amount that would be subsequently overpaid or over-claimed for GST at a later date is dealt with by way of an adjustment in one GST period.

You will therefore need to establish the total value of your debtors (Accounts Receivable) and creditors (Accounts Payable) as at 30 September 2010. If you record your income and/or expenses in your accounting system only when you receive or pay them (cash accounting) then you will need to manually compile this information, as it will not be available in your system.

Transitional Adjustment – Invoice basis

If your business is registered for GST on an Invoice basis, you will only need to complete a Transitional Adjustment if you have purchased second-hand goods for your business from a non-GST registered person and payment will be made after 30th September.

Special situations

1. Credit Notes

If you issue an invoice to a customer before 1 October 2010 with a GST Rate of 12.5%, and subsequently need to issue a credit note because, for example, the wrong price was charged, then you must calculate the GST on the credit note at 12.5%, since the time of supply was before 1 October.

2. Writing off Bad Debts (Invoice Basis Only)

If a debt exists at 30 September 2010 and is subsequently written-off due to non-payment, the debt should be written off using the original GST rate of 12.50%.

3. Lay-by Sales

Retailers who make lay-by sales that span the GST rate change will need to apply the new rate of GST when they set up the arrangement. For example, if the lay-by starts in August, and will be completed in November, the applicable rate will be 15%, since the time of supply does not usually occur until the last payment is received.

The GST rate at the time of the last instalment applies to the entire transaction. Or if the lay-by is cancelled and funds withheld, the GST rate applicable will be that prevailing when the cancellation occurs.

Bank reconciliations

If you are on Cash (Payments) basis, it is vital that you complete a bank reconciliation for all of your bank accounts as at 30th September. This will ensure that all of your cash transactions are recorded at the correct rate, and that your Accounts Receivable and Payable are correctly stated.

How will the GST rate change effect my business

Take some time to think about your business processes and documents to determine how they will be impacted by GST.

If you use GST-inclusive pricing, consider these points:

Will you keep your prices the same and absorb the 2.5% increase, until you can re-price your stock?

Will you need to update all of your sales prices in your system to include GST at 15%? If so, how and when do you expect to achieve this?

Will you need to change price labels on your products?

Do your customers have brochures with GST-inclusive prices?

Do you plan to update your brochure, or issue an amended price list?

Have you issued quotes with GST inclusive prices to your customers that may be accepted after 30 September 2010? Will you leave the price as is and absorb the 2.5% increase, or re-issue the quote?

Are GST rate changes allowed for in any contracts/agreements that you are a party to?

Systems

Has your accounting system or Point-of-Sale vendor contacted you regarding a possible upgrade to your system? Do you know if your system can be upgraded?

Do you know if your system can work with two GST rates?

e.g. You might need to issue a credit note dated November 2010 at 12.5%

e.g. If you record a cheque transaction in your accounts system in October, in payment of a supplier invoice dated September, you must record it using the 12.5% rate, not the 15% rate.

If you have any question regarding the information in this newsletter, feel free to get in touch with the team at Ontrack Bookkeeping Ltd

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