

Update on GST Budget changes

This month we're focusing on the GST transition as the GST rate changes from 12.5% to 15% from 1 October 2010.

Before GST increases to 15% on 1 October you'll need to check you're ready to account for the new rate on all sales and income, as well as purchases and expenses.

If you use software to account for GST, check you can change the rate and calculation, or get an update from your software provider to do this.

You'll also need to make sure you're ready to issue tax invoices with the new GST rate of 15% from 1 October.

When issuing credit or debit notes you'll need to make sure the GST rate is the same as the original tax invoice.

Time of supply rules

The general time of supply rules will apply for most transactions when there's a rate change. Generally, a supply is considered to take place at the earlier of:

- the time an invoice is issued, or
- the time a payment is received by the supplier.

The time of supply is important because it determines the rate of GST that applies to any sale or purchase. If an invoice is issued or a payment made for a supply prior to 1 October 2010, even if the goods are delivered or services provided on or after that date, then the rate of 12.5% will apply.

Although the general time of supply rule applies for most transactions there are special rules for some specific transactions. These include hire purchases, lay-bys, progress payments and rental or hire agreements.

[Find out more about time of supply information for other special supplies.](#)

Accounting basis and the GST rate change adjustment

How you account for GST depends on the accounting basis you use rather than the time of supply. Here's a quick refresher of the three types of GST accounting basis:

Invoice basis - you can claim GST when you receive an invoice and you account for GST at the earlier of issuing an invoice or receiving a payment.

Payments (or cash) basis - you account for GST or claim GST when you receive or make a payment.

Hybrid basis - you account for GST on your sales (income) using the invoice basis and claim GST on your expenses (purchases) using the payments basis.

If you use the payments or hybrid basis it's likely you'll have made or received supplies where GST was charged at 12.5% that you'll not account for until 1 October. When accounted for on your GST return these supplies would have GST calculated at 15%, so to make sure the correct amount of GST is accounted for a GST rate change adjustment is required.

Filing your GST returns

If you file monthly, two-monthly or six-monthly GST returns for the period ending 30 September 2010, you'll use the 12.5% rate. Then from 1 October you'll need to use the new 15% rate.

You'll receive a one-off GST transitional return if your return period spans the rate change, so you'll be able to account for GST at both rates.

There are two parts to the GST transitional return form:

Part 1 is for GST on supplies at the old rate of 12.5%

Part 2 is for GST on supplies at the new rate of 15%.

The two parts are then combined to calculate either your GST to pay or refund for that return period.

You'll need to separate any goods and services you've purchased and sold before and after the rate change and record these supplies in the correct part of the return.

If you pay provisional tax with your GST you'll receive a one-off GST transitional and provisional tax return, which includes your provisional tax calculation.

You'll need to make your GST transitional return at the usual date whether you have a refund, tax to pay or a nil return.

You'll also receive a flyer *Completing your GST transitional return (GST107)*, which will help you complete the return.

Reminders

2011 provisional tax instalments due 28 August: The first instalment for the 2011 provisional tax and student loan interim payments is due on 28 August 2010. This applies if you pay provisional tax using the standard or estimation option to calculate your provisional tax payments and have a standard March balance date. Your instalment due dates will be different if you file your GST returns six-monthly.

Till next time

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