Contents

Page

Introduction 2
Time of Supply 2
GST Returns 6
Payments Basis Adjustment 6
Invoice Basis 8
Contracts 9
Pricing 10
Debit and Credit Notes 11
Incorrect Tax Invoices 11
Consumer Behaviour 11
Cashflow Requirements 12
Computer Systems 12
Spreadsheets 13
Project Teams 14
Advance Billing 14
Stationery, Forms, Brochures and Contracts 15
Automatic Payments 15
Fringe Benefit Tax 15
Entertainment 15
Change in Use Adjustments 16
Interest, Penalties and Late Filing 16
Calculating GST 17
GST Advisory Panel 18
Action Plan 19

Introduction

1 It was recently announced in the Budget that the rate of GST will increase from 12.5% to 15% from 1 October 2010. This will have an effect on all New Zealanders, not just businesses registered for GST.

2. When businesses consider the implications of the GST rate increase it is not just a matter of changing systems to a GST rate of 15%. The GST rate increase will have wide reaching implications for everyone. This booklet covers the different considerations a business needs to take into account in preparing for the GST rate increase.

3. It is less than three months before the new GST rate takes effect, so you need to start thinking now about how this will impact on your business.

Time of supply

General Rule

4. The increased rate of 15% will apply to all "supplies" made on or after 1 October 2010. The term "supply" covers all types of transactions.

5. A supply is deemed to be made when the "time of supply" occurs. Therefore, the "time of supply" is fundamental in determining the appropriate rate of GST to apply to a transaction. It is also fundamental as to what amount or rate is shown on the tax invoice.

6. If the "time of supply" occurs on or after 1 October 2010 the new rate of 15% will apply to the transaction. If the "time of supply" occurs before 1 October 2010 the old rate of 12.5% will apply to the transaction.

7. The general rule is that the time of supply is the earlier of the time at which an invoice is issued or the time that any payment is received by the supplier in respect of the transaction. An invoice is a document notifying an obligation to make a payment. Note that it does not have to be a "tax invoice" that

is issued to trigger the time of supply. The term “tax invoice” is a different concept than “invoice”.

8. Therefore, if a supplier issues an invoice or receives payment for the supply before 1 October 2010 the old rate of 12.5% will apply to the transaction. If an invoice is not issued, nor a payment received, by the supplier until 1 October or later, the new GST rate of 15% will apply to the transaction.

Different Time of Supply Rules

9. The general time of supply rule does not apply to some transactions. We will now cover off some of these other transactions.

Associated Persons

10. The time of supply for a supply of goods or services between associated persons generally depends on the type of goods or services being supplied. The following table outlines the general time of supply for associated supplies.

Associated Supply	**Time of Supply**	**TOS Pre 1 October 2010**	**TOS Post 1 October 2010**
Goods to be removed	Time of removal	12.5% GST rate	15% GST rate
Goods not to be removed	Time goods made available	12.5% GST rate	15% GST rate
Services	Time at which services are performed	12.5% GST rate	15% GST rate

11. As the time of supply for supplies between associated persons occurs, generally, before an invoice or payment is received you need to be careful the correct GST rate is used.

12. The definition of who associated persons are is very broad. Therefore, if you believe you are making a supply to an associated person please call us to confirm the correct GST rate to use.

Door To Door Sales

13. The time of supply under a door-to-door sale occurs the day after the cancellation period expires, as provided under the Door to Door Sales Act 1967. Therefore, you need to be careful with door to door sales that are entered into prior to 1 October 2010 but the cancellation period expires on or after 1 October 2010.

Layby Sales

14. The time of supply for a layby sale occurs at the time at which the property in the goods is transferred to the recipient.
15. Businesses will need to consider the sale price of goods sold under a layby contract where it is entered into pre 1 October 2010 but the goods do not pass to the customer until on or after 1 October 2010. In this instance the sale price of the goods may have been based on a GST rate of 12.5%. However, the GST payable on the sale will be at the rate of 15%, meaning the business is out of pocket by the increase in the GST rate if the sale price is not increased.

Machines, Meters or Devices Operated by Coins or Tokens

16. The time of supply for a machine, meter or device operated by coins or tokens occurs at the time the coin or token is taken from the machine, meter or device. Therefore, these businesses should consider clearing the machines, meters or devices on 30 September 2010, so GST is paid at the rate of 12.5%.

Tokens, Stamps or Gift Vouchers

17. The time of supply for tokens, stamps or gift vouchers occurs, generally, at the time the token, stamp or gift voucher is issued or sold. However, for tokens, stamps or gift vouchers with a face value, the supplier in some circumstances, has the option

of treating the time of supply as occurring when the token, stamp or voucher is redeemed.

18. Businesses that issue tokens, stamps or gift vouchers for a face value, and treat the time of supply as the time of redemption, may want to consider changing the time of supply to the time the token, stamp or gift voucher is issued or sold. If a token, stamp or voucher is issued or sold prior to 1 October 2010 but redeemed on or after 1 October 2010, GST will be payable at the rate of 15% where the date of redemption is treated as the time of supply. However, if the time of supply was treated as the date the token, stamp or gift voucher was issued or sold, GST would only be payable at the rate of 12.5%.

Hire Purchase Agreement

19. The time of supply for goods and services supplied under a hire purchase agreement occurs at the time the hire purchase agreement is entered into.

Agreements to Hire and Periodic Payments (Leases and Rentals)

20. The time of supply for goods or services supplied under an agreement to hire, or services supplied under an agreement which provides for periodic payments, occurs successively, at the earlier of a payment becoming due under the agreement or the payment being received.

21. Generally, at the time a lease or rental is entered into the supplier provides the recipient with a tax invoice for the full term of the agreement. If the agreement was entered into before 1 October 2010 the GST rate used in the tax invoice will be based on the GST rate of 12.5%. Therefore, lessors will have to issue lessees with a new tax invoice based on the new GST rate of 15%. Furthermore, they will need to look at increasing the lease payments so they are not out of pocket by the increase in the rate of GST.

22. If you lease goods and claim GST, you should request updated tax invoices to ensure you are not denied a GST claim in the future.

Goods and Services Supplied Directly in Relation to Construction Contracts

23. For goods or services supplied directly in the construction, major reconstruction, manufacture, or extension of a building or engineering work where the consideration is paid in instalments or periodically, the time of supply occurs successively at the earlier of a payment becoming due, the payment being received, or an invoice for the payment being issued.

GST Returns

24. 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.

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

26. 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

27. 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 ending 30 September 2010.

28. 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. GST is to be accounted for at the rate of 15% in respect of payments made or received on or after 1 October 2010.

29. 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.

30. 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 ending 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.

31. As the calculation requires 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 2011 financial statements and tax returns. Therefore, please keep these details with the relevant GST return.

32. If a registered person on 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.

33. 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 debit 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.

34. If a registered person on the payments basis receives 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 debit or credit note has to be included in the GST return in the period in which the debit or credit note was received. If a credit note has been received the adjustment goes in box 13 of the GST return. If a debit note is received the adjustment goes in box 9 of the GST return.

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

Invoice Basis

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

37. 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.

Contracts

38. When the rate of GST is increased and a registered person has at any time entered into any agreement or contract in respect of a transaction, unless express provision for the exclusion of the GST rate increase is contained in the agreement or contract, the supplier should be able to add to the agreed price in the contract or agreement the amount of the increase in GST. However, this gross up provision will only apply to contracts entered into before 1 January 2011.

39. Businesses that have entered into contracts with customers that are stated "plus GST" have the right to increase the amount of GST to reflect the new rate. Therefore, we recommend that if you enter into any contracts with customers use "plus GST" in all contract prices.

40. Where businesses that have entered into contracts with customers that are stated as "inclusive of GST" there is a risk that the price is fixed and cannot be altered to cover the GST rate increase. However, as outlined above, the GST Act does give you the right, in some circumstances, to increase the price. If you have entered into "GST inclusive" contracts and the time of supply will occur on or after 1 October 2010, we suggest you review these contracts to see whether the price can be altered. If the price can be altered you should discuss this with the other contracting party.

41. Despite some contracts or agreements being able to be altered for the GST rate increase, this does not apply to grants or subsidies provided by a Public Authority. Therefore, if you are GST registered and receive a grant or subsidy from a Public Authority and the grant or subsidy is not increased by the GST rate increase you could be out of pocket. We suggest you discuss with the relevant Public Authority what they intend to do.

42. The GST Act provides that if the GST rate increases then any amount charged, that is subject to GST, under any Act or Regulation will be automatically increased by the GST rate increase. For example, Companies Office fees will automatically increase from 1 October 2010.

43. If you are entering into any contract prior to 1 October 2010 which will not be settled by 1 October 2010, make sure you are clear on the GST implications.

Pricing

44. Most businesses price goods and services on a GST inclusive basis. Therefore, if prices are not increased with effect from 1 October 2010, your profit margin will reduce by approximately 2.17%. To ensure your profit margin does not decrease you will have to increase the price of your goods and services by 2.22%. However, whether prices should be increased is a commercial decision that needs to be made by each business. It cannot be assumed that the GST rate increase will result in higher prices. The market sets the price.

45. Businesses will need to decide whether they should increase the price of goods or services from 1 October 2010. Some businesses may not be able to increase their prices by 2.22% if the market determines the price.

46. If your business uses "price points" it may not be practical to increase the price by 2.22%. For example, if the price of a good was $49.95 before the GST rate increase you would need to increase the price to $51.06 to ensure you receive the same profit margin. However, $51.06 is not practical to use as a "price point". Therefore, you will need to consider whether goods with price points should be increased or not. If they are not you may need to consider increasing non-price point goods by more than 2.22% to cover the profit margin decrease on price point goods.

47. If your business is GST registered and your suppliers increase their prices by 2.22% this will not affect your business as you will be entitled to a greater GST claim to offset the higher price.

48. If your suppliers increase their prices and you are not GST registered, or you make exempt supplies, this will reduce your profit margin as you cannot claim back the increase in the rate of GST. This represents an increased cost to you. Therefore, businesses such as residential rental property investors and

finance companies need to consider increasing their prices to recover this increase in overheads.

49. As 1 October 2010 is a Friday, businesses will have very little time to change prices from the previous day. Therefore, you should consider what you need to do in advance to have all your prices changed by 1 October 2010.

Debit and Credit Notes

50. If a debit or credit note is issued in respect of a supply made prior to 1 October 2010, the rate of GST that applies to the debit or credit note is the GST rate that applied to the original supply.

Incorrect Tax Invoices

51. In order to claim GST input tax a registered person needs to hold a valid tax invoice for the goods and services supplied to them. If you are provided with a tax invoice that has the incorrect rate or amount of GST then this will not be a valid tax invoice. In this instance no GST input tax claim can be made. Therefore, you will need to request the supplier to provide you with a correct tax invoice before making the claim.

52. We suggest that all tax invoices are checked for correctness before making a claim.

Consumer Behaviour

53. As most consumers will face an increase in the price of goods and services from 1 October 2010 there is likely to be an increase in demand for goods and services prior to this date. You will need to consider whether your business has adequate resources, such as staff, to handle this demand. Furthermore, it is likely there will be a decrease in demand for goods and services from 1 October. You will also need to consider the impact of this likely decrease on the resources of your business.

Cashflow Requirements

54. The increase in the rate of GST will have an impact on cashflow requirements for businesses.

55. If a supplier increases their costs then GST registered businesses will have to fund the increase in the amount of GST paid to the supplier until this can be recovered by way of a deduction in GST returns. However, this could be offset by an increase in the amount of GST collected on sales. Businesses will need to make sure they are able to fund the increase in the amount of GST paid to suppliers even though it is only temporary.

56. For exporters, as they are generally in a GST refund situation, they will have to fund the increase in the rate of GST until this is refunded by the Inland Revenue Department.

57. As there is expected to be an increase in demand for goods and services prior to 1 October 2010 this will also impact cashflow requirements for businesses. More funds will be required to fund any increase in stock purchases. However, this should only be a timing issue until funds from the increased sales are received.

58. If, as expected, demand decreases for goods and services from 1 October 2010 businesses could face constraints on their cashflow as costs increase but sales decrease.

59. It would be prudent for businesses to forecast their cashflow requirements now to see the effect the increase in the rate of GST will have on them. If you would like us to help you with this please call us to arrange this.

Computer Systems

60. 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 payments basis GST returns are correct.

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

62. 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.

63. 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 should 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.

64. Where 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.

65. 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 payments basis.

66. We have a team of people available to help you ensure your system will cope with this change. Please contact us for assistance if required.

67. 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

68. 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.

69. 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.

70. If you have spreadsheets which calculate GST and you would like us to review these or alter these for the GST rate increase please let us know.

Project Teams

71. Depending on the size of your business you may want to form a project team to identify potential issues and opportunities for the business due to the increase in the rate of GST. This booklet could be used as a guideline for the various issues that need considered. If you would like someone from our team to visit your business to discuss various issues facing you please contact us to arrange this.

Advance Billing

72. As previously set out the time of supply determines the appropriate rate of GST to be applied to a transaction. This is, generally, the earlier of an invoice being issued or payment being received.

73. If you increase your prices from 1 October 2010 to cover the GST rate increase, your customers who are not GST registered will pay 2.22% more than they would prior to 1 October 2010. Therefore, you may want to ensure all your billing is up to date as at 30 September 2010 so your customers pay less. Furthermore, you may want to consider invoicing your customers in advance. However - watch that you do not abuse this ability. Inland Revenue has indicated that in excessive situations the general anti-avoidance rules could be used if it is clearly evident that businesses are bringing forward a material number of transactions.

Stationery, Forms, Brochures and Contracts

74. If your stationery, forms, brochures or contracts are pre-printed with the current GST rate of 12.5% you will need to arrange for these to be changed to 15%. Furthermore, if you are to increase your prices these will also need to be altered. You should review your stationery, forms, brochures and contracts now to see whether these need altered.

75. Printing firms could become very busy prior to 1 October 2010 with this additional work so do not wait any longer if you want this printing done prior to 1 October 2010.

Automatic Payments

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

Fringe Benefit Tax

77. If you are GST registered and provide employees with fringe benefits then you are required to pay GST on the value of the fringe benefit provided. The rate of GST that will apply to the fringe benefit depends upon when the fringe benefit is provided. For fringe benefits provided up until 30 September 2010 the GST rate of 12.5% will apply. For fringe benefits provided after this date the GST rate of 15% will apply. Therefore, if you file FBT returns on an income year or annual basis you will need to split your fringe benefits between pre 1 October 2010 fringe benefits and post 30 September 2010 fringe benefits.

Entertainment

78. 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 apply 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

79. 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.

80. 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.

81. 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 applied 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 adjustments (i.e. where there has been a change from taxable to exempt use) taxpayers will have a choice of whether to apply the old or the new GST rate.

Interest, Penalties and Late Filing

82. 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.

83. 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

84. 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 x 3 ÷ 23 = $15.

85. To calculate the GST exclusive value from the GST inclusive amount you previously divided by 9 and multiplied by 8. From 1 October 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 x 20 ÷ 23 = $100.

86. 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 x 23 ÷ 3 = $115.

87. 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 x 20 ÷ 3 = $100.

GST Advisory Panel

88. As part of the GST rate increase the Government has set up a GST Advisory Panel. The purpose of the panel is to consider submissions and act as a conduit between businesses and the Government. It will monitor how businesses are dealing with the changes so that the Government is aware of particular issues people may face in recording and charging GST at the new rate. The panel will also advise the Government on any more general concerns for particular industries, activities or types of transactions related to the GST rate increase.

89. You can send comments and queries you have on the GST rate increase to either submissions@gstadvisory.govt.nz or:-

    GST Advisory Panel
    c/- The Chair
    PO Box 2195
    Wellington 6140

90. Alternatively, a submission form is available on the website dedicated to the GST rate change www.gstadvisory.govt.nz

ACTION PLAN

AUGUST	SEPTEMBER	OCTOBER
Identify the issues the GST rate increase will have on your business		
Identify computer software that will be impacted by the GST rate increase. Contact us to arrange a time to review changes required and to install updates if required.		
Review contracts that have been entered into inclusive of GST and renegotiate price if possible.		
Identify the impact on business resources the GST rate increase will have both prior to and after 1 October.		
Forecast the cashflow impact of the GST rate increase.		
Identify when the time of supply occurs for the goods and services you supply.		
Identify and update spreadsheets that will be impacted by the GST rate increase.		
Decide on pricing strategy.		
Reprinting of marketing material, brochures, forms and contracts.		
If you receive a grant or subsidy from a Public Authority discuss with the Authority whether they are going to increase the grant or subsidy.		
Ensure when entering into contracts the price is stated as "plus GST".		
	Communicate pricing changes to customers.	
	Advance bill customers if appropriate.	
	Alter automatic payments where the price has increased.	
		Calculate payments basis adjustment if required.
		Preparation of split GST return if required
		Issuing debit and credit notes at 12.5% and 15%.
		Check invoices, debit notes and credit notes received from suppliers to ensure correct rate of GST has been applied.

If there is a specific issue arising from the GST rate increase that you want advice on, please call us.

NOTES