



## *15% GST - are you up with the play?*

The change of GST rate is going to impact your business – and here are some points to consider.

### **What is the new rate and when does it start?**

The new GST rate is 15% and it will apply to supplies made on or after 1 October 2010.

### **What does “supplies” mean?**

Supplies are goods or services.

The time of supply is the earlier of an invoice being issued or any payment being made in respect of those goods or services.

Special rules apply for the time of supply in relation to certain continuous supplies and supplies between associated persons.

### **How is the new rate calculated?**

The tax fraction changes from 1/9 to 3/23.

The GST component of a GST inclusive price is arrived at by dividing the price by 23 and multiplying it by 3. For example, GST on a GST inclusive price of \$100 is \$13.05.

### **What happens if my GST return covers the two months 1 September to 31 October 2010 – i.e it straddles the date of the change?**

Two GST returns will have to be filed – a one month return for September and another one month return for October. The IRD will issue returns directly to you.

### **Do I have to do anything special in the GST return to 30 September 2010?**

1. Those of you who are registered for GST on a payments basis will need to make an adjustment for GST on accounts receivable and payable at 30 September 2010. The reason for this is that you will have issued/received an invoice for supplies made prior to 30 September, and those invoices will have GST at 12.5%. However, you will not be receiving/making payment on these invoices until October (or later) so they will then be included in your October (or subsequent) GST return and 15% GST will be declared/claimed. Therefore, this adjustment accounts for the difference between the rates.

There is a cash flow impact of this adjustment – if your accounts receivable at 30 September 2010 are larger than your accounts payable, you will have a GST claim. If your accounts payable are larger than accounts receivable, you will have GST to pay.

2. Those of you who are registered for GST on an invoice basis will need to consider whether you need to make a similar adjustment to the one above for second-hand goods purchased. GST on second-hand goods can only be claimed when a payment is made because the vendor is unable to issue a GST invoice (so you are unable to claim GST on an invoice basis). Time of supply may have been prior to 30 September when the GST rate was 12.5% but if payment is not made until October you will include the purchase in your October return and claim GST at 15%.
3. For land sales and purchases, there may need to be an adjustment – see the section later in this article.

The Inland Revenue Department have issued a GST rate change guide (GST106) which is available online at [www.ird.govt.nz](http://www.ird.govt.nz) or on our website. There will be an adjustment calculation sheet (GST105), which is not yet available online but will be in the coming days.

### **What happens if I have bad debts recovered after the rate has changed?**

Where a previously written off bad debt is recovered after the change in GST rate, this is deemed to be a supply in the period in which the recovery occurs. Therefore, a debt that you may have previously written off at the 12.5% GST rate prior to September 2010 could be recovered in December 2010 and you will have to declare GST at 15%.

### **What happens with layby sales that I have made?**

For GST purposes, the time of supply is the time that ownership of goods transfers to the buyer. This is normally the time that the final payment is made for the goods and they are handed over to the buyer. If this is after 30 September 2010, you will have to pay GST to the IRD at the 15% rate on the entire sale price.

### **Successive or continuous supplies**

If you supply goods or services on a continuous basis (e.g. Telecom line rental) and receive payments on a regular or periodic basis, the time of supply will be triggered throughout the period, rather than all at the start – therefore, any payments received after 1 October 2010 will be at 15% GST. This means that you will need to either “wear” that increase until the contract is up for renewal or you will need to increase your monthly amount to cover the increase.

The Government has announced that if you have issued an invoice for a supply on or prior to 30 September 2010, and the service has been provided, you can choose to account for GST at 12.5% on the whole supply in the September period. You can only do this if your customer had the option to make one payment for the supply and you notify your customers that they will only be able to claim back GST at 12.5%.

The same applies for annual contracts (e.g. insurance premiums).

Therefore, you need to carefully consider:

1. The ability to legally change the price charged to customers for the periods after 1 October 2010 (to increase instalments for the new GST rate).
2. The practical and commercial issues of trying to collect the higher amount from your customers (is it cheaper for your business to wear the extra GST cost rather than

attempt to recover it from your customers and potentially risk good customer relations in the process?).

3. The ability of your accounting system to handle dual GST rates for a single contract.

### **Supplies between associated persons**

The time of supply for transactions between associated persons is the earlier of an invoice being issued, payment being received or when the goods themselves are made available/ the services are performed.

Care needs to be taken to ensure that GST is correctly accounted for.

### **Land and time of supply rules**

A sale and purchase agreement does not constitute an invoice and therefore does not trigger time of supply. The time of supply is triggered when the vendor is entitled to payment.

If the vendor receives a deposit (i.e. it is physically paid out, not held in a lawyers or real estate agents trust account), then they are liable for GST at that time. If the vendor is on an invoice basis for GST, then they will be liable for GST on the entire sale price. If the vendor is on a payments basis for GST, then they will be liable for GST on the deposit only.

For those on a payments basis for GST, where the time of supply is triggered before 30 September by the receipt of a deposit but the balance of the funds will not be received until October, you will need to make an adjustment in your September GST return. This will have a cash flow impact for you.

### **Construction Contracts**

Where your construction contracts provide for progress payments, the time of supply for each payment is the earlier of:

1. When the payment becomes due
2. When the payment is received
3. When an invoice relating to that payment is issued

Therefore, payments due, received or invoiced before 1 October 2010 have GST at 12.5% and those after that date have GST at 15%.

Where you have fixed price contracts entered into using the 12.5% rate, section 78 of the GST Act allows you to increase the contract price provided the contract does not expressly state that the price cannot be increased as a result of a GST rate increase.

If you have any questions or concerns or need assistance with your GST return, please do not hesitate to contact us.