

## WBB Newsletter - 25 August 2010

- **2010 GST Change**



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### LET'S HELP YOU GET PREPARED

You will obviously be well aware of the GST rate increasing to 15% from 1 October. With this date fast approaching you need to ensure that you are prepared for the increase and have considered all the areas of your business that will be affected, and what you need to do to be ready by 1 October.

This is the first GST rate increase for over 20 years, so for many businesses it will be the first time that they have had to implement a rate change to existing operations. With so much information released it is often difficult to know what is important and relevant. To simplify this for you our newsletter will focus on the GST rate increase.

**To simplify the process of preparing for the GST increase we detail below information to help you.**

Click on the links below for more information:

#### **Starting with the basics**

- When should I start using the new rate?
- Which rate will apply
- Special time of supply rules
- Filing returns
- GST periods spanning 1 October 2010

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

- Getting familiar with 7.66666

#### **Can I increase my prices?**

- What factors do you need to consider

#### **Reviewing your accounting system**

We've done some research for you. We've reviewed some of the systems available and detailed their requirements.

#### **Checklist**

We have prepared a simple checklist to assist you.

#### **Reviewing your September 2010 GST Return and System's Processes**

We need to get this right from 1 October going forward. If you need some help, one of our GST team can visit you to:

- review your September GST return;
- review your systems to see that they are correctly set up going forward for the increase in GST; and
- print/compile a list of debtors and creditors as at 30<sup>th</sup> September 2010 (if you are on GST payments basis only). This is very important as you will need these figures for the GST adjustment required in the September GST Return.



Please give Val a call on 486 7020 to book an appointment with one of our GST team. Our charge rate for this assistance is \$80.00 plus GST per hour.

We realise this could be a very busy time and you will have many questions, please don't hesitate to give us a call. Our team is here to help.

**Essential websites to visit for GST change information to assist you:**

IRD - <http://www.ird.govt.nz/changes/gst/businesses/budget-2010-gst-bus-index.html>

GST Advisory Panel - <http://www.gstadvisory.govt.nz/updates>

NZ Government Business website - <http://www.business.govt.nz/compliance/business-tax/budget-2010-tax-changes-for-businesses/gst-change>

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**STARTING WITH THE BASICS**

**When should I start using the new rate?**

The 15% GST rate hike comes into effect on 1 October 2010. This means that the 15% GST rate will generally apply to supplies made by GST registered persons on or after 1 October 2010.

**How do I choose the correct rate for supplies that span 1 October 2010?**

To determine the correct GST rate to use, you will need to identify the "time of supply". In most cases the time of supply will be the earlier of the time an invoice is issued, or a payment is made in respect of a supply of goods or services. If the time of supply occurs before 1 October 2010, the GST rate to use is 12.5%. This applies even if the goods are not delivered, or the services are not provided to the customer until on, or after 1 October 2010. If the time of supply occurs on or after 1 October 2010, the GST rate to use is 15%.

The normal earlier of "payment or invoice being issued" time of supply rule is modified for certain continuous supplies and for supplies between associated persons. Let's call these "special supplies". The Government has recently proposed transitional rules that override the time of supply rules for "special supplies".

**Filing Returns**

GST periods ending 30 September 2010

For those of you on payments basis GST you are required to complete a GST Rate Change Adjustment. To complete this adjustment you must have already printed/compiled a detailed list of debtors and creditors as at 30 September 2010. This can be done on the IRD Form GST105 which is now available on the IRD's website.

<http://www.ird.govt.nz/resources/6/c/6cfd0080439f6fa39eec9e4e9c145ab7/gst105.pdf>

GST periods starting from 1 October 2010

You'll need to use the new 15% GST rate in GST returns starting from 1 October 2010 if:

- You file your GST returns monthly, or
- You are a two or six monthly filer that has a return period ending 30 September 2010

GST periods that span 1 October 2010

If a GST return period spans 1 October 2010, a special one-off transitional GST return, with two parts, will be required using:

- A) the 12.5% GST rate for the period up to and including 30 September 2010 (this will be Part 1); and
- B) the 15% GST rate for the period on and after 1 October 2010 (this will be Part 2).



You will need to:

- Separate any goods and services you have purchased and sold before and after the rate change
- Record these supplies on the appropriate part of the GST transitional return
- Complete and file your GST transitional return and make any payment by the return and payment due date.

If this applies to you then IRD will send you a special one-off transitional GST return (refer <http://www.ird.govt.nz/changes/gst/businesses/returns/budget-gst-filing-104a.html> for a sample image of a special one-off transitional GST return) together with an information flyer explaining what you need to do.

### Importing Goods into New Zealand

When importing goods into New Zealand, the date of importation will determine the rate of GST payable. If the goods are imported on or before 30 September 2010 the rate of GST that is payable is 12.5%. If the goods are imported on or after 1 October 2010 the rate of GST that is payable is 15%.

Refer <http://www.business.govt.nz/compliance/business-tax/budget-2010-tax-changes-for-businesses/gst-change/gst-on-imports>

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### HOW IS THE NEW RATE OF GST CALCULATED?

For the 12.5% rate, the GST component of a GST-inclusive amount can be calculated by dividing by nine.

For the 15% rate, the GST component will need to be calculated by either multiplying the GST-inclusive amount by the fraction 3/23. Instead of using the 3/23 fraction you can also divide the GST-inclusive amount by 7.66 recurring to calculate the GST component.

Multiplying by the fraction 3/23

The fraction method is calculated using the following formula:

$$\frac{\text{Rate of tax}}{100 + \text{rate of tax}} = \frac{15\%}{100 + 15} = \frac{15\%}{115} = \frac{3}{23}$$

To find out the GST component of a GST-exclusive amount, multiply the GST-exclusive amount by 15%.

Example:

Value of Goods	\$1,500.00
GST at 15%	<u>\$225.00</u>
Total price	<u>\$1,725.00</u>

To calculate the GST component of a GST-inclusive amount, multiply the GST-inclusive figure by three, then divide by 23.

Example:

Step 1: \$1,725.00 multiplied by three is \$5,175.00

Step 2: \$5,175.00 divided by 23 is \$225.00 (the amount of GST)



#### NOTE

You can also calculate the GST component by dividing the GST-inclusive price by 7.6666. However you must use at least 4 decimal places to calculate the correct GST component as using fewer decimal places can result in an incorrect answer for example:

\$1,725.00 / 7.66 is \$225.20 – this is incorrect  
\$1,725.00 / 7.666 is \$225.02 – this is incorrect  
\$1,725.00 / 7.6666 recurring = \$225.00 – this is correct

Using the fraction method (multiply by three and then dividing by 23) will always provide you with accurate answer.

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#### CAN I INCREASE MY PRICES?

Business will need to consider whether prices can be increased. The GST Act contains transitional provisions that allow prices in existing contracts to be increased by the GST rate hike in certain circumstances. Where a business sells to a GST registered business then any such price increase will be neutral if the GST registered purchaser is able to fully recover the increase as a GST input tax credit. As a result of this, businesses that are not able to fully recover GST on expenses – for example those in the finance industry, will bear the cost of the GST rate hike.

For businesses selling to end consumers on a GST inclusive basis, the impact on profit and pricing points needs to be considered. While some businesses may be capable of absorbing the increase, others will need to increase prices by 2.2 per cent. A product priced at \$100 excluding GST currently sells for \$112.50. With GST at 15% that same product will sell for \$115.00 – a 2.2% price increase. Altering prices will be especially time consuming for many in the retail industry.

Refer <http://www.business.govt.nz/compliance/business-tax/budget-2010-tax-changes-for-businesses/gst-change/gst-invoices-and-receipts> for a discussion of matters to consider when increasing prices.

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#### REVIEWING YOUR ACCOUNTING SYSTEM

We've done the research for you.

It is important you understand the implications of the GST rate increase on your accounting software system. Can your current system account for the change easily, what steps do you need to follow or do you need to consider upgrading to a new version of your software?

We are here to help you with this process.

We strongly recommend (if you don't already do this) that all clients who are on a payments basis for GST print/compile a complete list of debtors and creditors as at 30<sup>th</sup> September 2010 so that there is a hard copy. This is very important as you will need these figures for the GST adjustment required in the September GST return.

If you require assistance with compiling/printing your debtors and creditors lists as at 30<sup>th</sup> September 2010, please contact Val on 486-7020 to arrange a person from our GST team to assist you.

We detail below some of the accounting systems effected and what needs to be done.



## BANKLINK BOOKS

Your BankLink Books software will be updated by us automatically to deal with the changed GST rate as soon as you receive transaction data for October. Your historical data, reports and coding memorisations will remain unchanged. The only system change affecting you will be the alteration of GST indicator codes, as follows:

GST CODE	UP TO 30 SEPTEMBER 2010	FROM 1 OCTOBER 2010
1	12.5% on sales	15% on sales
2	12.5% on expenses	15% on expenses
3 (new – invoice basis only)	-	12.5% on sales
4 (new – invoice basis only)	-	12.5% on expenses
9	Exempt (no GST)	Exempt (no GST)

Again, we recommend (if you don't already do this) that all clients who are on a payments basis for GST print/compile a complete list of debtors and creditors as at 30<sup>th</sup> September 2010 so that there is a hard copy. This is very important as you will need these figures for the GST adjustment required in the September GST return.

If you require assistance with compiling/printing your debtors and creditors lists as at 30<sup>th</sup> September 2010, please contact Val on 486-7020 to arrange a person from our GST team to assist you.

## MONEYWORKS

### You don't need to upgrade your MoneyWorks

MoneyWorks was designed for a GST environment, so no upgrade is needed, even if you have a very old version. However, the existing GST Guide Form will no longer work correctly, as it is based on 12.5% GST – indeed **it should not be used** once the new rate comes into effect. MoneyWorks propose to make a replacement Guide available for MoneyWorks 5 in the near future (once the IRD have finalised things). The GST Report however will continue to function correctly for invoice basis only. For payments basis the GST Guide form can be used but you should contact us first because, at the time of publishing this newsletter, this area was still under development with MoneyWorks.

### What you need to do in MoneyWorks

First off, you will need to change the GST Rate in your tax table. Doing this in MoneyWorks is easy, and can in fact be done at any time before 1 October. The steps are as follows:

- Choose Show>Tax Rates to display the tax table;
- Double Click your normal GST code (usually "G", but in very old files might be "N");
- Set the Rate 1 rate to 12.5%;
- Set the Changeover Date to 01/10/10;
- Set the Rate 2 rate to 15.0%;
- Click ok

It would pay to check the other tax rates that you use.

The effect of this is that transactions dated before 1 October 2010 will attract the Rate1 tax rate of 12.5%; transactions dated on or after 1 October 2010 will attract the Rate2 rate of 15%.

If you are on an Invoice basis for GST...

There appears to be nothing further that you need to do with regards to MoneyWorks.

If you are on a Payments basis for GST...

You will need to work out the GST adjustment on your outstanding debtors and creditors on 30 September 2010 and claim (or pay) the difference between the old rate and the new rate on these. This is necessary because all subsequent payments/receipts on these invoices will be



treated by the IRD as if they had 15% GST on them (even though the originating transaction only had 12.5%), so they are giving you this discrepancy in advance.

Use the Aged Debtors (and Aged Creditors) Report for this, setting the aging to be *Calculated by Period*, and run as at September 2010. Make sure that you have the *Show GST* option turned on. The report will list the total outstanding invoices and the GST on them as at the end of September.

Should you require any assistance with any aspect of the above, please give Val a call on 486-7020 to arrange a person from our GST team to assist you or visit the MoneyWorks website <http://www.cognito.co.nz/nzgstchange>

### **MYOB**

All versions – the easiest way to ensure your system will cater for the rate change is to upgrade to the latest version of MYOB (AccountRight v19). MYOB are advising that they will be releasing a patch for this version only in late September which will “make management of the GST rate change easier”. What this means specifically we are not sure, but expect that you will be able to select the appropriate GST rate after 1 October, while your historical data and reports will remain unchanged.

MYOB will be contacting users once the software patch is available (late September), detailing how to download and install it, the changes being made and the checks that should be performed.

Again, we recommend (if you don't already do this) that all clients who are on a payments basis for GST print/compile a complete list of debtors and creditors as at 30<sup>th</sup> September 2010 by printing the Receivables with GST Report and Payables with GST Report so that there are hard copies. This is very important as you will need these figures for the GST adjustment required in the September GST return.

If you require assistance with compiling/printing your Receivables with GST Report and Payables with GST Report as at 30<sup>th</sup> September 2010, or require assistance with the upgrade please contact Val on 486-7020 to arrange a person from our GST team to assist you.

Please visit the MYOB website for further information.

- Getting Ready Guide - <http://myob.co.nz/business/gst-change-2010/tools-downloads/getting-ready-guide-1257828765416>
- Get the right Software - <http://myob.co.nz/business/gst-change-2010/get-your-software-sorted-1258091534365>

### **MYOB EXO**

A new patch will be released for Version 7.4. to incorporate the GST change. Please contact your MYOB-EXO provider for information regarding the upgrade.

### **XERO**

Your Xero system will be automatically updated to deal with the changed GST rate as soon as you login on 1 October. Your historical data and reports will remain unchanged. Xero have announced that they will be automatically adding new Tax Rates into your company setup. Your Tax Code selection list will change as follows:



UP TO 30 SEPTEMBER 2010	FROM 1 OCTOBER 2010
GST on Expenses (12.5%)	GST on Expenses (12.5%) *
	GST on Expenses (15%)
GST on Imports (0%)	GST on Imports (0%)
GST on Income (12.5%)	GST on Income (12.5%) *
	GST on Income (15%)
No GST (0%)	No GST (0%)
Zero Rated (0%)	Zero Rated (0%)

\* Note that the previous 12.5% rate will still be required for some transactions in the transitional period after 1 October (e.g. credit notes to customers [or from suppliers] for return of goods invoices before 1 October). When entering these transactions in Xero you will need to override the default selection in the "Tax Rate" field with the appropriate new Tax Rate. This is a manual adjustments process that you will need to administer. The software will not make these adjustments automatically.

You will need to review any Bank Rules and Repeating Invoices you may have to set up, to ensure they are using the correct GST Rate after 1 October.

Again, we recommend (if you don't already do this) that all clients who are on a payments basis for GST print/compile a complete list of debtors and creditors as at 30<sup>th</sup> September 2010 so that there are hard copies. This is very important as you will need these figures for the GST adjustment required in the September GST return.

Xero also recommend that for Xero to correctly calculate the adjustments, as you process your remaining 12.5% transactions, it is important that you publish all your GST returns from now on. You should publish once you've run your return and are happy with the results: simply press the Publish button.

If you require assistance with compiling/printing your debtors and creditors lists as at 30<sup>th</sup> September 2010 please contact Val on 486-7020 to arrange a person from our GST team to assist you.

## REVIEWING YOUR SEPTEMBER 2010 GST RETURN AND SYSTEM'S PROCESSES

We need to get this right from 1 October going forward. If you need some help, one of our GST team can visit you to:

- Review your September GST return;
- Review your systems to see that they are correctly set up going forward for the increase in GST; and
- Print/compile a list of debtors and creditors as at 30<sup>th</sup> September 2010 (if you are on GST payments basis only). This is very important as you will need these figures for the GST adjustment required in the September GST Return.

Please give Val a call on 486 7020 to book an appointment with one of our GST team. Our charge rate for this assistance is \$80.00 plus GST per hour.

We realise this could be a very busy time and you will have many questions, please don't hesitate to give us a call. Our team is here to help.

**Regards**  
**Phil, Lewis, Brett, Josie and the Team**

