



## GST Changes for 1 October 2010

We have all heard about the budget and the GST increase due 1<sup>st</sup> October, which is just weeks away.

- In reality what does this mean for your business?
- What do you need to do?
- Are you ready?

In this newsletter I am hoping to highlight some of the aspects of the GST changes that affect most businesses (or business industries I am working with), so that as the business owner you have the information at hand that you need. Even non GST registered businesses need to think about the impact of this GST increase on their business cash flow and whether they need to increase some of their prices to accommodate.

Some of the timing issues regarding the “old” vs. “new” rates are still being addressed by the IRD and the GST Commission. The content of this newsletter are current at the time of writing – please contact me for free advice on aspects in this letter that relate to your business, in case more changes are made.

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### Be aware of the changes in the cash flow of the business over this time.

There may be peaks and dips in the normal trading activity of your business as customers spend pre October to “beat the GST increase” and then sales slow in October/November as a result of this pre GST spending!

### The Basic Facts:

GST will increase from 12.5% to 15% on the 1<sup>st</sup> October 2010.

PAYE (Pay as you earn – tax rates) will decrease on the 1<sup>st</sup> October 2010.

If you are on a payments or hybrid basis, the GST rate that you use depends on the “time of supply” – this is simply the earlier date for either an invoice being issued or a payment being received.

Example:

- purchasing goods that are delivered or received by 30<sup>th</sup> September – GST rate 12.5%.
- or receiving an invoice for the goods dated 30<sup>th</sup> September and delivery or payment made after this date (e.g. monthly by the 20<sup>th</sup>) – GST rate 12.5%.
- any goods purchased after 1 October either delivered or paid will be at 15%.

There are times when the supply/purchase date is not always clear-cut and **where special timing rules apply**. Examples are lay-bys; deposits paid in advance, combined supply of goods and hire of equipment, progress payments. There is a separate document for these.

### IMPORTANT:

You have until the 10<sup>th</sup> October to post out your September invoices and statements (with 12.5% GST) to your customers and clients. This is so that everyone has all the relevant information (invoices – both sales and purchases) to make the one-off rate change adjustment in time to complete the August/September GST return due 28<sup>th</sup> October 2010.

### The Rate Change:

The “divide by 9” to get the GST amount is now out and the new formulae is “multiply by 3 and divide by 23”.

According to the IRD publications, you can only use “divide by 7.66666666” if you use EIGHT decimal spaces, so I suggest to get the GST amount/content on a GST inclusive price use **the new formulae - “multiply by 3 and divide by 23”**.

If you are using a computer package, you will need to have both the 12.5% and 15% GST rate in the system.

**Word of warning** - it is not simply a matter of changing the existing 12.5% rate to the new 15% rate, as this will, in most cases, change all the historic data as well i.e. pre October dates to 15%!

Most accounting programme companies are handling with the GST changes smoothly.

- MYOB has an upgrade to Version 19.5 which can be purchased if you are not already on their maintenance programme.
- Xero will upgrade their software automatically (as all their updates are free) on the night of the 30<sup>th</sup> September.

## One off GST Rate Change Adjustment

**This rate change adjustment is only if you are registered with the IRD for a PAYMENT (CASH) or HYBRID basis.**

**Invoice basis registered businesses DO NOT need to make these adjustments.**

If your GST period is for either two months August/September (due 28<sup>th</sup> October), or for the one month September, there is a one-off GST rate change adjustment.

This adjustment fixes the timing issue that occurs when GST is charged at the old rate, but reported on subsequent GST returns at the new rate i.e. when invoices are issued before 1 October but are paid after this date.

An example is where you invoice a customer before the end of September at \$100 + 12.5% GST = \$112.50 (The GST amount is \$12.50).

This is then paid on say the 20<sup>th</sup> October 2010.

As the payment is after 1 October rate increase, the 15% GST rate is used on the GST return i.e. 15% of \$112.50 is \$14.67 (\$112.50 multiply 3 divide 23 = \$14.67).

This is \$2.17 more than the original \$12.50.

So you are no worse off, there is a once off adjustment in the September return for this \$2.17 credit.

In essence it is a timing adjustment i.e. in the August/September return you will get a credit of \$2.17 back from the IRD (because the invoice has not yet been paid) but in the October/November return the 15% of \$14.67 is shown (being the original \$12.50 + credit \$2.17).

I suggest any credit adjustment in the Aug/Sept return be "put aside" into a savings account for safe keeping for the Oct/Nov return due 15<sup>th</sup> January 2011.

As January can be a quite month for trading for lots of businesses, finding this "extra" cash for the January GST payment may be difficult and keeping it in a savings account could ease the cash flow in January.

The GST105 sheet can be used to calculate the adjustment amount, although MYOB and Xero (accounting computer programmes) are automatically including it in the system's GST returns with their latest updates.

In essence, you need to know at the 30<sup>th</sup> September 2010, the amount of money owed to you (Debtors/Accounts Receivable) and the amount of money owed by you (Creditors/Accounts Payable) that have GST at 12.5%.

**The formula is:**

The total amount of Creditors/Accounts Payable (GST inclusive)	A	\$
The total amount of Debtors/Accounts Receivable (GST inclusive)	B	\$
Subtract amount B from amount A	C	\$
Divide amount C by 51.75.	D	\$

Amount D is the GST rate change adjustment.

If the amount in Box A is larger than box B, GST is payable and this amount is entered in Box 9 of the standard GST return.

If the amount in Box B is larger than box A, a GST credit is available and this amount is entered in Box 13 of the standard GST return.

**Note:** Keep all the supporting documentation with the details of how the amounts for Creditors (A) and Debtors (B) were calculated above e.g. supplier/customer name, invoice number, invoice date, invoice 12.5% GST inclusive amount.

Also think outside the box i.e. beyond the normal trade Creditors & Debtors – remember capital purchases/assets, existing contracts (e.g. property sales).

If you are using a computerised system, you will need to do a journal entry to record this GST adjustment in the system.

### **Transitional GST Adjustment/Return (GST 104 Form)**

If your GST period covers (or spans over) the 1<sup>st</sup> October 2010, there is a new Transitional GST Return, divided into 2 parts.

- Part 1 for supplies at the GST rate of 12.5%

In Part 1 you record your sales and income, and purchases and expenses, plus any adjustments (including the rate change adjustment), from the start of your return period until 30 September 2010.

The GST calculation is at 12.5%, meaning your GST-inclusive sales and income, and purchases and expenses will be divided by nine (9) to find the GST component.

- Part 2 for supplies at the new GST rate of 15%

In Part 2 you record your sales and income, purchases and expenses, and any adjustments from 1 October 2010 until the end of your return period.

The GST calculation is at the new GST rate of 15%, so your GST-inclusive sales and income, and purchases and expenses will be calculated by multiplying by 3 then dividing by 23 to find the GST component.

The IRD website has full details regarding this return.

<http://www.ird.govt.nz/changes/gst/businesses/returns/>

## **Managing the business through the GST price increase i.e. Prices, cash flow & communication**

For the business owner the GST price increase is not just about a change in the accounting / bookkeeping. There is more to consider:

### **Review your pricing?**

- Do you simply put up your prices?
- Do you absorb the GST increase on behalf of your customers?
- Do you do a mix between the two e.g. on slow moving items, absorb the increase but on main item sales, increase the price for GST?
- Pay attention to price sensitive items – could these be used as loss leaders?
- Think about the psychology of various pricing breaks e.g. \$9.95 vs. \$10.10?
- Are you showing both prices on your pricing tickets – to encourage customers to buy now and beat the increased price? Is it worth your while to do this – cost of tickets, labour etc?

### **Possible Changes to the cash flow?**

- Are you ready for an increase in sales pre October? Do you have enough stock – do you need to order more and will it sell? Can you afford to order more i.e. cash flow?
- Are there any purchases that you can make pre October to “save” on the GST rise e.g. stationery, stock items etc?
- Are there any purchases that you can pay for in full now to “save” on the GST increase e.g. certain hire purchases or instalment arrangements?
- Are you prepared for the possible decrease in sales in October – after everyone has done their spending spree?
- Some costs/outgoings are fixed and will need to be paid regardless of how much sells in October e.g. rent, wages, etc.
- Remember the possible GST credit in Aug/Sept return (received October) may be offset with a higher payment for Oct/Nov (due January). Are you prepared for this?

### **Communicate with both your Customers & Suppliers early!**

- Let your customers know in advance what your pricing plan is. This allows them to plan for their purchases and cash flow.
- Ask your suppliers for details on their new prices, so that you can take advantage of better buying now and update your cash flow.
- Is your current preferred supplier still the best one to use? Has a competitor supplier absorbed the GST rise and your current supplier hasn't, therefore making them more expensive?
- Update your marketing material (including your website) with your new pricing and policies?
- Customers are going to be “shopping around” so make sure your staff is up to date with the price changes in your business. Also there may be an increase in phone enquiries – can you handle this?

## Accounting Checklist

- Get your accounting system up to date early – input your invoices and purchase as soon as possible.
- Issue all credit notes and write off any bad debts (where allowable)
- Review all recurring transactions – especially automatic payments.
- Book time **NOW** with your accountant or financial person if you are going to want help with the August/September GST return. Some accountants are already fully booked with system upgrades for the last week of September and beginning of October.

## Reminder - PAYE Changes

**The wages PAYE rates also change on the 1st October 2010.  
Keep your staff informed as to how this will affect them.**

**Good luck with the changes...**

**If you need any assistance with any of these changes, please contact me.**

Kind regards  
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