

Ready, Steady, Go!

Are you prepared for the GST rate change on 1 October??

If you're wondering how to manage the transition from a GST rate of 12.5% to 15% on 1 October 2010, Hamish Pryde of Coombe Smith has some simple pointers to help you get it right.

Below is an overview of the GST rate change and how the change could impact your business practices. It is not intended to be a description of all of the GST changes.

Time of Supply

How do you determine when the new rate should be used? The rate is set by the time of supply. A supply is considered to take place at the earlier of the:

- Date an invoice is issued, or
- Date any payment is received by the supplier.

If the time of supply is before 1 October, then the applicable rate will be 12.5%. If the time of supply is after 30 September then the applicable rate will be 15%.

Transitional Return

If your next GST return period spans 30 September 2010, then you will need to complete a special 2-part GST Return (called a Transitional Return). The first part will cover the return period up to and including 30 September, and the second part will cover the return period from 1 October 2010 to the end of your standard GST period. In the first part, transactions will be subject to GST at 12.50%. For the second part, transactions will be subject to GST at 15%.

Calculating the GST component of a supply using the new 15% rate.

Use the fraction $\frac{3}{23}$. Any alternative will not be as accurate.

Transitional Adjustment – Payments / Hybrid Basis

If you are registered for GST on a Payments or Hybrid basis you will need to record a transitional adjustment in your GST return for the period ending on 30 September 2010.

The adjustment will need to take into account supplies where the time of supply is before 1 October 2010, but payment is yet to be made or received. An adjustment is required because, in later return periods, when a payment is received or made, those payments must be dealt with at a GST rate of 15%, even though GST at 12.5% was charged on those supplies. The adjustment in the return period ending 30 September 2010 will ensure that any amount that would be subsequently overpaid or over-claimed for GST at a later date is dealt with by way of an adjustment in one GST period.

You will therefore need to establish the total value of your debtors (Accounts Receivable), unbanked cash sales and creditors (Accounts Payable) as at 30 September 2010. If you record your income and / or expenses in your accounting system only when you receive or pay them (cash accounting) then you will need to manually compile this information, as it will not be available in your system.



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Systems

Have you considered a full review of all your business systems and processes where the GST rate is used including spreadsheets, templates, tax invoices, credit notes, and reports? Has your accounting software provider or point-of-sale vendor contacted you regarding a possible upgrade to your system? Do you know if your system can be upgraded? Do you know if your system can work with two GST rates?

Special Situations

1. Credit Notes

If you issue an invoice to a customer before 1 October 2010 with a GST Rate of 12.5%, and subsequently need to issue a credit note because, for example, the wrong price was charged, then you must calculate the GST on the credit note at 12.5%, since the time of supply was before 1 October.

2. Writing off Bad Debts (Invoice Basis Only)

If a debt exists as at 30 September 2010 and is subsequently written-off due to non-payment, the debt should be written off using the original GST rate of 12.5%.

How will the GST Rate change affect my business?

Take some time to think about your business processes and documents to determine how they will be impacted by GST.

If you use GST-inclusive pricing, consider these points:

- Will you keep your prices the same and absorb the 2.5% increase, until you can re-price your stock?
- Will you need to update all of your sales prices in your system to include GST at 15%? If so, how and when do you expect to achieve this?
- Will you need to change price labels on your products?
- Do your customers have brochures with GST-inclusive prices?
- Do you plan to update your brochures, or issue an amended price list?
- Have you issued quotes with GST inclusive prices to your customers that may be accepted after 30 September 2010? Will you leave the price as is and absorb the 2.5% increase, or re-issue the quote?
- Are GST rate changes allowed for in any contracts / agreements that you are a party to?

Preparing your August and September GST Return

We will need the following information as at 30 September 2010:

- Accounts Receivable / Debtors
- Accounts Payable / Creditors
- Unbanked Cash Sales

For more information or assistance with preparing your GST returns contact the team at Coombe Smith today. (Source: Hamish Pryde)



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