



Inland Revenue
Te Tari Taake

GST 106
September 2010

2010 GST rate change guide

For GST-registered individuals and
businesses



Introduction

The GST rate increases to 15% on 1 October so GST-registered individuals and businesses need to know how to manage the transition, make sure their accounting systems are adjusted and how to complete transitional forms.

For more information about the 2010 Budget tax changes go to www.ird.govt.nz/changes or call us on 0800 377 776.

Further proposed changes to help businesses transition to the new GST rate

The Government has announced that it intends to make a number of amendments to legislation to help businesses during the transition to the new GST rate.

The intended changes relate to certain situations where the supply of goods or services spans the GST rate change, including:

- Annual contracts involving successive supplies
- Subrogation payments to an insurer
- Finance leases
- Lay-by sales

The proposed changes will also align legislation with normal business practice regarding issuing tax invoices or replacement tax invoices during the period of the GST rate change.

More information about these changes will be available from www.ird.govt.nz/changes when the amendments to the legislation have been passed.

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What do I do before 1 October?

Before 1 October 2010 you need to:

- make sure your accounting systems can issue invoices and account for GST at 15% from 1 October 2010
- keep your record keeping systems up to date, so you know what rate was applied to invoices issued and payments made or received before or after 1 October
- think about increasing some or all of the prices you charge your customers.

It's up to you whether you change your prices but from 1 October 2010 you have to account for 15% GST on all your sales and pay 15% GST on any purchases you make for your business.

This is a good time to check if you still need to be registered for GST. You must cancel your GST registration if your taxable activity has ended. You can also cancel your GST registration if you expect your turnover for the next 12 months to be less than \$60,000.

If you cancel your registration, you'll have to file a final GST return and account for any business assets you keep. If you cancel your GST registration:

- before 1 October, use the 12.5% rate
- on or after 1 October, use the 15% rate.

What do I do from 1 October?

On or after 1 October you'll:

- charge 15% GST on any sales you make, even if you haven't increased your prices
- claim 15% GST on any purchases you make.

Note: If you want to pass on the GST increase to customers you already have a contract with you can increase the price by the amount of the GST increase (2.5%) by issuing a debit note to your customer (see page 11 for situations where this may arise).

How do I calculate GST at 15%?

If you know the GST-exclusive amount, multiply it by 15% or 0.15 to get the GST content.

If you know the GST-inclusive price and you want to work out the GST content, multiply the GST-inclusive price by 3 and divide the answer by 23.

$$\text{GST-inclusive price} \times 3 \div 23 = \text{GST amount}$$

Example

Hi-Fi Wholesalers sells 10 home entertainment systems to Smooth Sounds. The systems are sold for \$1,150 each including GST. The total cost of the 10 systems is \$11,500.

$$\$11,500 \times 3 \div 23 = \$1,500 \text{ GST}$$

Note: You can also calculate the GST content by dividing the GST-inclusive price by 7.66666666 but you must use 8 decimal places to get the correct GST amount.

What happens if the rate change occurs during my GST period?

You'll need to complete a **one-off GST transitional** return if your return period spans 1 October. This applies to the following returns:

- the two-month period ending 31 October 2010, or
- six-month periods ending:
 - 31 October 2010
 - 30 November 2010
 - 31 December 2010
 - 31 January 2011
 - 28 February 2011.

Use your GST transitional return to account for the GST on income and expenses before and after 1 October 2010 at the 12.5% and 15% GST rates.

The return looks very similar to the current GST return and will cover the same period but it has an extra part. The first part is for all GST transactions at the 12.5% rate. The second part is for all transactions at the 15% rate. A third part is for any provisional tax (if applicable) and the total refund or payment due.

After the transitional return period, your GST returns will continue to look the same as they do now—the only difference is that you'll calculate GST at 15%.

Adjustments for the GST rate change

You may need to complete a *GST rate change adjustment sheet (GST 105)* as part of your GST return that covers 30 September 2010.

A GST rate change adjustment is needed for any “qualifying supplies” that have a 12.5% GST rate but won’t be accounted for until after 1 October 2010. Use your accounting basis below to work out what qualifying supplies you need to make an adjustment for.

Payments (or cash) accounting basis

Qualifying supplies are all goods and services:

- bought and invoiced on or before 30 September 2010 where full payment has not been made by 30 September 2010
- sold and invoiced on or before 30 September 2010 where full payment has not been made by 30 September 2010.

Invoice accounting basis

Qualifying supplies:

- are any secondhand goods bought from a non-GST-registered person on or before 30 September 2010 where full payment hasn’t been received by 30 September 2010
- don’t include goods or services you’ve sold.

Hybrid accounting basis

Qualifying supplies:

- are all goods and services bought on or before 30 September 2010 where full payment hasn’t been made by 30 September 2010
- don’t include goods or services you’ve sold.

The amount of each qualifying supply will be the amount unpaid by 30 September 2010 and not written off as a bad debt.

Note: Zero-rated or exempt supplies are not qualifying supplies.

Calculate the GST rate change adjustment using our *GST rate change adjustment calculation sheet (GST 105)*.

We’ll send the GST 105 with your GST return for the period ending 30 September 2010, or your transitional return. You can also get one from www.ird.govt.nz

Why am I doing a rate change adjustment?

For sales

If you make a sale on or before 30 September 2010, you'll charge your customer 12.5% GST. When using the payments accounting basis, if you receive the payment on or after 1 October you'll account for it in a later GST return at 15% GST. This means you'll pay us 2.5% more than you receive. In this case we'll give you a 2.5% credit in your GST rate change adjustment, which you make as part of your GST return that includes 30 September 2010.

Example

Matt owns a garden centre. He uses the payments accounting basis for GST and files two-monthly (on odd-numbered months).

Matt sells some plants to a landscaper on 28 September for \$1,500. The invoice shows GST of \$166.66 (12.5%).

He completes the GST rate change adjustment for this sale and receives a \$28.99 credit. He claims this in his GST return for the period ending 30 September 2010.

Matt doesn't receive a payment from the landscaper until 20 December.

When he completes his January 2011 GST return he shows this as a \$1,500 sale and accounts for GST at 15% (\$195.65).

Although he accounts for GST at 15% (\$195.65) in his January return, because he received a \$28.99 credit in his September GST return, overall he's only paying 12.5% GST (\$166.66).

GST at 15%	\$195.65
Less GST at 12.5%	<u>\$166.66</u>
Difference = credit available in the GST return for the period ending 30 September 2010.	\$28.99

For purchases

If you make a purchase on or before 30 September 2010, you'll be charged 12.5% GST. When using the payments or hybrid accounting basis, if you make the payment on or after 1 October you'll account for it in a later GST return at 15% GST. This means you'll claim 2.5% more than you pay. In this case you need to pay us 2.5% in your GST rate change adjustment, which you make as part of your GST return that includes 30 September 2010.

Example

Matt buys some seeds on 25 September for \$800. The invoice shows GST of \$88.89.

He completes the GST rate change adjustment for this purchase and pays \$15.46. He shows this in his GST return for the period ending 30 September 2010.

Matt pays for the seeds on 20 October 2010.

In his November GST return he shows purchases of \$800 and claims a GST credit of \$104.35.

The invoice for the seeds shows \$88.89 GST. Matt's November GST return shows GST of \$104.35 but because he's already made a rate change adjustment and paid \$15.46, he's only claiming a total GST credit of \$88.89.

GST at 15%	\$104.35
Less GST at 12.5%	<u>\$88.89</u>
Difference = payable in the GST return for the period ending 30 September 2010.	\$15.46

Debit/credit notes for a supply that's had a GST rate change adjustment

You may issue or receive a debit or credit note for a qualifying supply you've already made a GST rate change adjustment for.

If the qualifying supply hasn't been paid you'll need to do a further adjustment to make sure the GST is correct. Calculate the adjustment like this:

- Subtract from the GST-inclusive price on the original tax invoice the GST-inclusive price on the new credit or debit note.
- Divide the result by 51.75.
- If the result is a positive amount you have GST to pay. Include this amount as an "other" adjustment in Box 9 of your *GST adjustments calculation sheet (IR 372)*.
- If the result is a negative amount you have a GST credit. Include this amount as an "other" adjustment in Box 13 of your *GST adjustments calculation sheet (IR 372)*.

As well as this adjustment you'll also need to account for the GST difference on the credit or debit note (see page 11).

Bad debts

You may write off a bad debt that you've made a GST rate change adjustment for at 30 September 2010. To reverse a credit that you've already claimed on your *GST rate change adjustment sheet (GST 105)* you'll need to do the following calculation:

- Divide the amount written off as a bad debt by 51.75.
- The result is the amount of GST payable. Include this amount as an "other" adjustment in Box 9 of the *GST adjustments calculation sheet (IR 372)*.

What rate of GST do I use?

The GST rate you use depends on when the transaction occurs (the time of supply).

The time of supply is when the supplier issues an invoice or receives a payment, whichever happens first.

Note: If the time of supply is before 1 October 2010, the GST rate is 12.5%, even if the goods or services are not actually provided until after that date.

Special supplies

In some situations the time of supply can occur after an invoice is issued or payment is received. Below are the more common exceptions to time of supply. For more information on special supplies read Part 4 of our *GST guide (IR 375)*.

Hire purchases

GST is accounted for in the taxable period that includes the date you signed the hire purchase agreement.

If the hire purchase agreement is signed ...	the GST rate is ...
on or before 30 September 2010	12.5%
on or after 1 October 2010	15%

Lay-bys

GST is accounted for in the taxable period that includes the date when ownership of the goods is passed—generally when the final payment is made.

If the final payment is made ...	the GST rate is ...
on or before 30 September 2010	12.5%
on or after 1 October 2010	15%

Periodic payments or hire agreements

The time of supply for each instalment in a periodic payment or hire agreement is the earlier of the date payment is due or received.

If a payment is due or received ...	the GST rate is ...
on or before 30 September 2010	12.5%
on or after 1 October 2010	15%

Successive supplies or progress payments

When goods or services are supplied progressively or periodically and paid for in the same way, or supplied directly in constructing, manufacturing or extending a building, or civil engineering work with payments made as the work progresses, the time of supply is the earlier of when a periodic payment was made, becomes due or when an invoice was issued for that payment.

If the time of supply was on or before 30 September 2010, GST will be charged at 12.5%. From 1 October, GST will be charged at 15%.

Other adjustments and information

Late GST claims

If you're unable to claim GST for an expense during the period you paid for it (eg, you don't have a tax invoice), you may be able to claim it in a future period. Read our *GST guide (IR 375)* for more information.

If you're making a late claim after 1 October for an expense that shows GST at 12.5%, you'll need to complete Box 13 in the *GST adjustments calculation sheet (IR 372)* and transfer this amount to your GST return.

Note: Don't include the amount of the late claim as an expense on your GST return.

Credit and debit notes

If you issue or receive a credit or debit note, calculate GST at the rate that applied at the time of the original invoice.

If you issue or receive a credit or debit note after 1 October for an invoice where GST was charged at 12.5%, you'll need to complete a *GST adjustments calculation sheet (IR 372)*.

Changing the use of an asset

If you use goods and services you bought for your business for private purposes, or use private goods and services in your business, you'll need to make an adjustment for any change in use. You'll also need to do this when goods or services bought for your business are used for making exempt supplies.

When calculating the GST adjustment, use the GST rate that applied when the change of use took place, regardless of when you accounted for the adjustment.

Alternatively, when there has been private use of business goods and services, you can make the adjustment at the GST rate of 15%, even if the change of use happened before 1 October 2010.

Entertainment expenses

The time of supply and the GST adjustment for these expenses will be the earlier of when your income tax return for the period is due, or when it's filed for the income year you provided the entertainment. If this date is on or after 1 October 2010, the 15% GST rate will apply.

You can choose the 12.5% rate for any expenditure incurred before 1 October 2010 if your records show that the expense was incurred before that date. If you make this choice include the adjustment for pre 1 October 2010 expenditure in your GST return that includes 30 September 2010.

Imported goods

The New Zealand Customs Service is responsible for collecting GST on goods imported into New Zealand. For more information go to www.customs.govt.nz

Note: If you use the payments or hybrid basis you'll need to include any unpaid New Zealand Customs invoices issued before 1 October 2010 as a GST rate change adjustment.

Services you may need

Need to talk to us?

You can call us on these numbers:

GST	0800 377 776
General tax, tax credits and refunds	0800 227 774
Employer enquiries	0800 377 772
General business tax	0800 377 774
Overdue returns and payments	0800 377 771

We're here to take your call between 8 am and 8 pm Monday to Friday and Saturday between 9 am and 1 pm. Remember to have your IRD number with you when you call.

For more information go to www.ird.govt.nz (keywords: contact us).

www.ird.govt.nz

Go to our website for information, services and tools.

- **Secure online services** – login to check your account information, file an employer schedule, confirm personal tax summaries and update your family details and income.
- **Get it done online** – complete and send us forms and returns, make payments, make an appointment to see us and give us feedback.
- **Work it out** – use our calculators, worksheets and tools to help you manage your tax business like checking your tax code, or your filing and payment dates.
- **Forms and guides** – download our guides, and print forms to post to us.

You can also check out our newsletters and bulletins, and have your say on items for public consultation.

How to get our forms and guides

You can view copies of all our forms and guides mentioned in this guide by going to www.ird.govt.nz and selecting “Forms and guides”. You can also request copies by calling 0800 257 773.

Business Tax Update

Get all your business tax news in one newsletter. Our *Business Tax Update*, available online only, gives you tax updates on payroll, GST, FBT and other relevant tax issues. Subscribe through the newsletter page at www.ird.govt.nz/subscribe and we'll send you an email when each issue is published.

Customer service quality monitoring

As part of our commitment to providing you with a quality service, we record all phone calls to and from our contact centres. Find out more about this policy or how to access your recorded information at www.ird.govt.nz

If you have a complaint about our service

We're committed to providing you with a quality service. If there's a problem, we'd like to know about it and have the chance to fix it. You can call the staff member you've been dealing with or, if you're not satisfied, ask to speak with their team leader/manager. If your complaint is still unresolved you can contact our Complaints Management Service. For more information go to www.ird.govt.nz or call us on 0800 274 138 between 8 am and 5 pm weekdays.

If you disagree with how we've assessed your tax, you may need to follow a formal disputes process. For more information, read our factsheet, *If you disagree with an assessment (IR 778)*.

Privacy

Meeting your tax obligations means giving us accurate information so we can assess your liabilities or your entitlements under the Acts we administer. We may charge penalties if you don't.

We may also exchange information about you with:

- some government agencies
- another country, if we have an information supply agreement with them
- Statistics New Zealand (for statistical purposes only).

If you ask to see the personal information we hold about you, we'll show you and correct any errors, unless we have a lawful reason not to. Call us on 0800 377 774 for more information. For full details of our privacy policy go to www.ird.govt.nz (keyword: privacy).