

Inland Revenue

GST Rate Change

Guidance for software developers

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About this guidance document

The GST rate will increase from 12.5% to 15% from 1 October 2010. This document aims to provide accounting software providers an outline of the changes associated with the GST increase announced in the May 2010 budget.

More information has been released by Inland Revenue on www.ird.govt.nz/changes so please check this site for regular updates.

This document explains:

- the effects of the rate change for GST-registered persons and organisations.
- GST return filing requirements.
- how to calculate the GST rate change adjustment.
- introduction to the new GST legislation enacted on 7 September 2010.
- clarification of the correct GST time of supply treatment on a transaction that could be affected by a change in the rate of GST.

The key points to note are:

- that generally, the 15% GST rate will apply to goods and services supplied from 1 October 2010.
- if a customers' GST return period does not end on 30 September 2010, they will need to complete a transitional return for the first period ending on, or after, 1 October 2010.
- if customers account for GST using the payments (cash) basis, the hybrid basis, or have purchased second-hand goods from a non-registered person, they may be required to make a GST rate change adjustment to ensure they don't pay too much, or too little, GST.

Disclaimer

This document outlines the major changes that software developers may need to incorporate into any product upgrades for the GST rate increase. It is not a product specification document.

This document is correct at time of writing. There is legislation currently before Parliament and may be subject to change as part of the legislative process. Inland Revenue accepts no responsibility for advice until legislation has received its royal assent and the final version is publicly released.

Feedback

Feedback on this guidance document is welcomed.

Any software developer queries regarding this document can be directed to payroll.developers@ird.govt.nz including "Budget 2010" in the subject line.

A separate e-file specification has been released in July 2010. E-file developers can send queries through to efile.team@ird.govt.nz

If you're a software developer outside of payroll or e-file, please use the payroll developers' email address.

Changes from previous version

Legislation in the Taxation (Annual Rates, Trans-Tasman Savings Portability, KiwiSaver, and Remedial Matters) Bill introduced in November 2009 received Royal assent on 7 September. At the Committee of the Whole House stage Supplementary Order Paper 157 added several transitional arrangements for the GST rate increase.

The purpose of the revised version of this guidance document is to outline these legislative amendments.

We have taken the opportunity to make minor corrections including fixing some typing errors and layout changes.

The following table outlines changes from the previous document.

Page number	Details of the change
11 - 17	<p>GST rate change adjustment – clarification of some terms especially the second hand goods from non-registered person.</p> <p>Improved layout to correspond with how to complete the <i>GST rate change adjustment calculation sheet (GST 105)</i>.</p> <p>What if a customer can't identify their qualifying supplies for the rate change adjustment?</p>
22	Removal of information regarding September invoices received in October. Issue is dealt with in the late claims and new legislation changes sections.
23-32	Introducing the new legislation changes
39	Correction regarding placing a bet on a race or sports betting.
40	Updated example for gaming machine duty and problem gambling levy.
44	Correction regarding change of use adjustments.
46	Correction regarding suppliers increasing prices to reflect a GST rate increase
47	Addition of information regarding the apportionment rates for rest homes and long term hospital accommodation.
48	Correction regarding Entertainment Expenses

The rate of GST and its calculation

The GST rate will increase from 12.5% to 15% from 1 October 2010.

All GST-registered people need to add 15% to the GST-exclusive cost of any goods or services they sell after 1 October 2010. The 15% will also need to be a component of the GST-inclusive price.

Example

Hi-Fi Wholesalers sells to Simon Sounds an order of ten home entertainment systems. The price of the systems is \$1,000.00 each excluding GST. The tax invoice for ten systems will show \$10,000.00, plus GST at the rate of 15% (\$1,500.00). The GST is added to the price to establish the GST-inclusive price of \$11,500.00 for the order.

Calculating the GST component of a sale or purchase at the new rate

The GST component of a **GST-inclusive** price is worked out using the following formula:

$$\text{GST-inclusive amount} \times \text{tax fraction}$$

The GST *tax fraction* is defined according to the following formula:

$$\frac{A}{100 + A}$$

where A = the rate of GST

From 1 October 2010 the new GST tax fraction is 15/115 which can be simplified to **3/23**:

$$\frac{15}{100 + 15} = \frac{15}{115} = \frac{3}{23}$$

Example

To calculate the GST component for a GST-inclusive price of \$256.99:

$$\$256.99 \times (3/23) = \$33.52$$

To calculate the GST component for a GST-inclusive price of \$17,440:

$$\$17,440 \times (3/23) = \$2,274.78$$

To calculate the GST component for a GST-inclusive price of \$146,900:

$$\$146,900 \times (3/23) = \$19,160.87$$

Customers who are registered for GST who have purchased or sold goods and services in the course of their taxable activity will have to account for GST on these at a rate of 15% from 1 October 2010.

Can I divide by 7.66 instead of multiplying by 3/23?

Using the fraction method (multiply by 3 and then dividing by 23) will always provide the correct answer, no matter how large the GST-inclusive price.

The GST component could also be established by dividing the GST-inclusive price by **7.6 recurring** (meaning the .6 carries on to infinity). However, dividing by the recurring decimal may give an incorrect answer depending on how many decimal places are used.

The larger the GST-inclusive price the longer the recurring figure needs to be to provide an accurate answer. This is demonstrated in the following example:

Example

For a GST-inclusive price of \$17,440.00 and using the tax fraction (3/23) will result in GST component of \$2,274.78

For a GST-inclusive price of \$17,440.00 and dividing by 7.6 recurring will result in the following depending on decimal places used:

\$17,440.00 / 7.66	= \$2,276.76 – incorrect: difference of \$1.98
\$17,440.00 / 7.666	= \$2,274.98 – incorrect: difference of \$0.20
\$17,440.00 / 7.6666	= \$2,274.80 – incorrect: difference of \$0.02
\$17,440.00 / 7.66666	= \$2,274.78 – correct GST component.

Inland Revenue realises it will be difficult for some software systems to adopt the fraction system. To ensure the GST component of a GST-inclusive amount is able to be calculated correctly in **all situations**, accounting software should use:

1. the fraction method (3/23) in the first instance; or
2. 7.6 recurring truncated at **8** decimal places (i.e. 7.66666666)

Inland Revenue systems will calculate the GST component using the same standard.

In the rare instances where it results in a small difference, this amount will be written-off. It is not until GST-inclusive amounts over \$99,999,900 that inaccuracies occur with using 7.6 recurring truncated at **8** decimal places (i.e. 7.66666666).

Example

For a GST-inclusive price of \$108,170,000.00 and using the tax fraction (3/23) result in GST of \$14,109,130.43

\$108,170,000.00 / 7.66666666 = \$14,109,130.44 – a difference of \$0.01

Rounding

If the tax fraction of 3/23 results in a fraction of a cent then it should be rounded to the nearest whole cent when the GST component is recorded on a tax invoice (including credit and debit notes.)

Example

Simon Sounds has sold a home entertainment system to a customer for \$1489.99. To establish the GST component of that price for the tax invoice, Simon first multiplies \$1489.99 by 3 to get \$4469.97. \$4469.97 is then divided by 23 to get \$194.34652. This is rounded to the nearest whole cent to give a GST component of \$194.35 of the sale price.

Return Filing

There will be minor changes to existing GST returns for periods beginning from 1 October 2010. The new GST returns at the 15% rate will generally look the same and be completed like the old returns.

However, for customers whose taxable period does not end on 30 September 2010, they will need to complete a transitional return to account for supplies being made at the 12.5% and 15% rate.

Standard GST returns

The existing GST returns are:

- GST 101A GST return
- GST 103B through GST 103H: GST and provisional tax returns series

From 1 October 2010 all existing GST returns will be amended as follows:

GST Return Box Number	Description
Box 8	will now be multiplied by 3 then divided by 23 to provide the total GST included in the sales and income for the period.
Box 12	will now be multiplied by 3 then divided by 23 to provide the total GST included in the purchases and expenses for the period.

No other changes are being made to these returns.

GST Transitional Returns

Where a customer has a GST return period that spans the date of the rate change, they will need to complete a new GST transitional return for that period. This return will only be used once, and the customer can then use the usual GST return in the next period at the new rate.

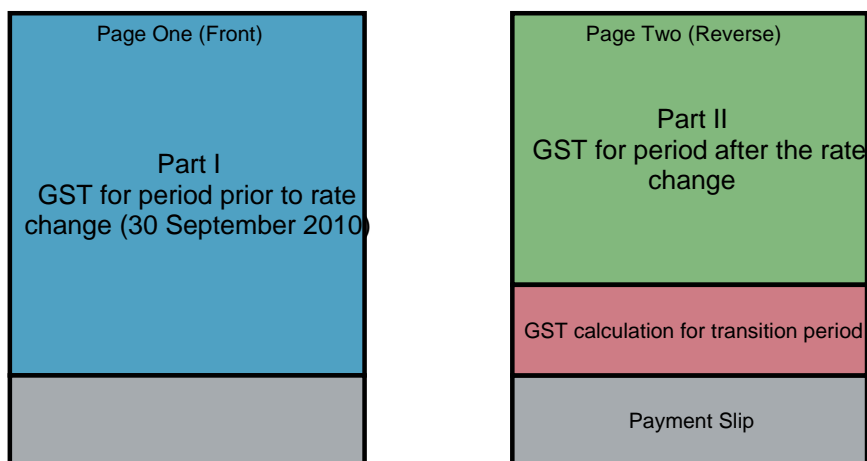
The GST transitional return only applies to the following customers whose GST taxable period spans the GST rate change:

- Two-monthly taxable period ending 31 October 2010
- Six-monthly taxable periods ending
 - 31 October 2010
 - 30 November 2010
 - 31 December 2010
 - 31 January 2011
 - 28 February 2011
- There will be two Transitional Returns
 - Goods and Services Tax
 - Goods and Services Tax and Provisional Tax

The GST transitional return will be used to account for the GST on income and expenses for any supplies made, or received, before and after 1 October 2010.

The new GST transitional return will follow the existing calculation process but also require a combined GST calculation to see if there is tax to pay, or refund. The provisional tax calculations remain the same. Copies of the transitional returns can be located on our website at: <http://www.ird.govt.nz/changes/gst/businesses/returns/>

GST Transitional Return



Part I – GST period ending 30 September 2010

The first page will include sales and income, expenses and purchases, and any adjustments from the start of the taxable period until 30 September 2010.

GST Return Box Number	Description
Boxes 1 to 4	Registration number, period covered by return, address information, and phone number (as per current GST returns).
Box 5A	Total sales and income from the start of the taxable period until 30 September 2010

GST Return Box Number	Description
Box 6A	If Box 5A includes any zero-rated supplies, the total of zero-rated supplies will be recorded in Box 6A
Box 7A	Instructs customers to subtract Box 6A from 5A with the difference printed here
Box 8A	Calculation Box. Total of Box 7A divided by nine (9)
Box 9A	GST adjustments to be added in with GST on sales or income. This will include the rate change adjustment required due to the change in the rate of GST – see page 9. Customers will be referred to use a <i>GST adjustments calculation sheet (IR372)</i> if they have other adjustments and copy the total to Box 9A. Only the GST content of these adjustments will be required.
Box 10A	Instructs customers to add Box 8A and Box 9A. This is the total GST collected on sales and income
Box 11A	Total purchases and expenses from the start of the taxable period until 30 September 2010.
Box 12A	Calculation Box. Total in Box 11A is divided by nine (9)
Box 13A	Box 13A is for GST credit adjustments to be added in with GST on purchases and expenditure. This will include the rate change adjustment required due to the change in the rate of GST – see page 9. Customers will be referred to use a <i>GST adjustments calculation sheet (IR372)</i> if they have other adjustments and copy the total to Box 13. Only the GST content of these adjustments will be required.
Box 14A	Instructs customers to add Box 12A and Box 13A. This is the total GST credit for purchases and expenses

Part II – GST period ending after 1 October 2010

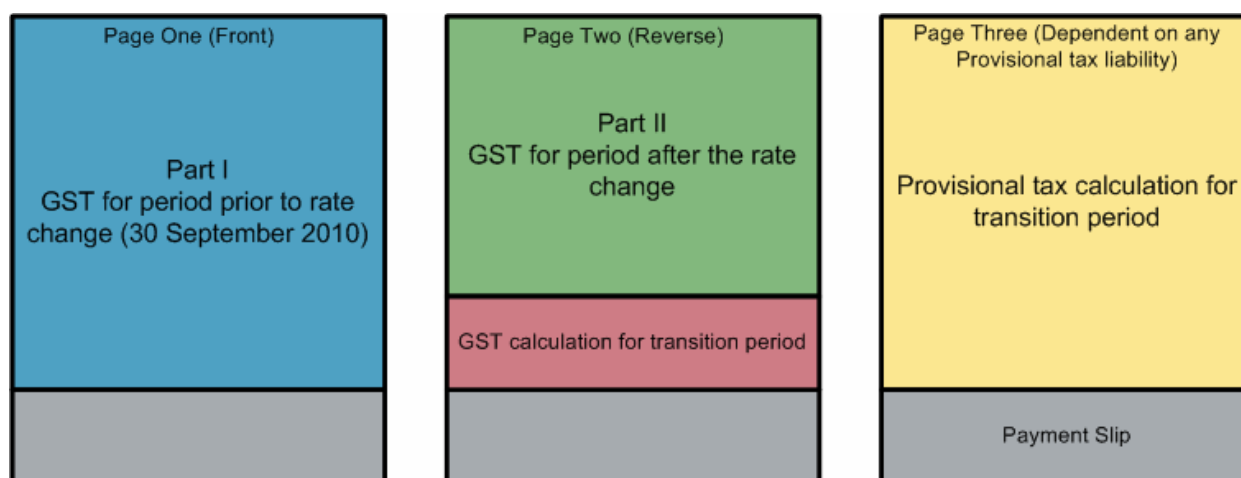
The second page will include sales and income, expenses and purchases, and any adjustments from 1 October 2010 until the end of the taxable period.

GST Return Box Number	Description
Box 5B	Total sales and income from 1 October 2010 until the end of the taxable period
Box 6B	If Box 5B includes any zero-rated supplies, the total of zero-rated supplies will be recorded in Box 6B
Box 7B	Instructs customers to subtract Box 6B from 5B with the difference printed here
Box 8B	Calculation Box. Multiply the amount in Box 7B by three (3) then divide the result by twenty-three (23)

GST Return Box Number	Description
Box 9B	<p>Box 9B is for GST adjustments that are added in with GST on sales or income.</p> <p>Customers will be referred to use the <i>GST adjustments calculation sheet (IR372)</i> and copy the total to Box 9. Only show the GST content of these adjustments will be required.</p>
Box 10B	<p>Instructs customers to add Box 8B and Box 9B. This is the total GST collected on sales and income</p>
Box 11B	<p>Total purchases and expenses from 1 October 2010 until the end of the taxable period.</p>
Box 12B	<p>Calculation Box. Multiply the amount in Box 11B by three (3) then divide the result by twenty-three (23)</p>
Box 13B	<p>Box 13B is for GST credit adjustments to be added in with GST on purchases and expenditure. This may include the GST from any late claim of GST for purchases and expenses incurred prior to 1 October 2010.</p> <p>Customers will be referred to use a <i>GST adjustments calculation sheet (IR372)</i> if they have other adjustments and copy the total to Box 13. Only the GST content of these adjustments will be required.</p>
Box 14B	<p>Instructs customers to add Box 12B and Box 13B. This is the total GST credit for purchases and expenses</p>
Box 15	<p>Instructs customers to add Box 10A and Box 10B. This is the total GST on sales and income for both parts of the taxable period.</p>
Box 16	<p>Instructs customers to add Box 14A and Box 14B. This is the total GST on purchases and expenses for both the parts of the taxable period.</p>
Box 17	<p>Instructs customers to print the difference between Box 15 and Box 16.</p> <p>If the amount in Box 15 is larger than the amount in Box 16, the difference is GST to pay. If the amount in Box 16 is larger than the amount in Box 15, the difference is GST to be refunded. Box 17 will show the GST to pay or GST refund amount.</p>

GST Transitional and Provisional Tax Return

Customers who pay GST and are liable for provisional tax will receive a transitional GST return and provisional tax return for the first taxable period that ends after 1 October 2010.



Pages One and Two contain the GST parts of the transitional return. Page Three is the provisional tax calculation section of the return. The payment slip will be on page 3 of return.

The GST transitional and provisional tax return will not be tailored to a customer's normal provisional tax option. All the return variations will be on the same return but certain boxes may not apply to all customers (e.g. if they do not use the ratio option or if the transitional period is not a compulsory payment period for provisional tax.)

Customers will continue to receive tailored GST and provisional tax returns as usual for taxable periods that begin after 1 October 2010.

GST / Provisional Tax Return Box Number	Description
Box 18	Enter total sales and income from Box 5A and Box 5B
Box 19	Do you file GST returns for more than one branch or division? If so enter total sales and income (from Box 5 or 5A and 5B) from all other branches/divisions, otherwise enter zero (0). (Remember to include amounts from the previous month if the other branches file on-monthly)
Box 20	Add Box 18 and Box 19
Box 21	If you've sold an asset in the last two months, you can make an adjustment for the asset's worth, if its over \$1,000, or it's over 5% of your taxable supplies in the last 12 months, whichever is greater. Enter the amount here, otherwise enter zero (0)
Box 22	Subtract Box 21 from Box 20
Box 23	Multiply the amount in Box 22 by your ratio percentage (this is printed on your notification letter). This is your provisional tax instalment due – copy this amount to Box 24
Box 24	Compulsory provisional tax period – Provisional tax instalment due or Voluntary provisional tax period – Total voluntary amount you would like to make

GST / Provisional Tax Return Box Number	Description
Box 25	If Box 17 from page 2 is a refund, enter the amount you would like to transfer to provisional tax, otherwise enter zero (0)
Box 26	Subtract Box 25 from 24. If Box 25 is larger than Box 24, enter zero (0)
Box 27	If Box 15 from page 2 is GST to pay enter the amount here, otherwise enter zero (0)
Box 28	Add Box 26 and Box 27 This is your GST and /or provisional tax to pay

GST Rate Change Adjustment

Customers who use the payments (or cash) basis or the hybrid basis to account for their GST will need to make a rate change adjustment due to the change in GST rate to 15%. Customers using the invoice basis will be required to make this adjustment only if they have purchased second-hand goods for their business from a non-registered person.

This adjustment will be made in the GST return that includes 30 September 2010. This will either be the return ending 30 September 2010, or in Part I of the transitional return if the taxable period spans the rate change.

Why is an adjustment needed?

Customers on payments (or cash) basis account for GST on their income and expenses in the taxable period in which they make or receive a payment. It is likely they will have income and expenses from before 1 October 2010, for which a tax invoice has been issued, and GST charged at 12.5%, but payment not yet received to them or paid by them.

If customers were to then account for the GST on such income and expenses when payment is received by them, or payments they may make, on or after 1 October 2010, the GST would be calculated at 15% rather than 12.5%. This could mean that they will pay or have credited more GST than was actually charged or received at the time the tax invoice was issued.

Example

Hi-Fi Wholesalers and Simon Sounds both account for their GST on the payments (or cash) basis. On 28 September 2010 Hi-Fi Wholesalers sell to Simon Sounds 10 home entertainment systems at a total GST-inclusive price of \$11,250.00. They issue Simon Sounds a tax invoice at that time. Simon Sounds then pays the invoice on 5 October 2010.

As the invoice is issued (i.e. the supply made) before 1 October 2010 GST is included at the rate of 12.5%. The GST component of the supply will be $\$11,250.00 / 9 =$
\$1,250.00

However if the sale and purchase is accounted for in the taxable period beginning on or after 1 October 2010, when the invoice was paid, then the GST component would be $\$11,250 \times (3/23) =$ **\$1,467.39**.

Without an adjustment Hi-Fi Wholesalers will pay more GST on this sale than was charged and Simon Sounds would claim more GST than he actually paid on the invoice.

If customers use the hybrid basis they will account for GST on their sales when they issue an invoice or receive any payment, but account for purchases and expenses when they make the payment. Customers on hybrid basis will need to make an adjustment for any purchases or expenses which have not been paid prior to 1 October 2010.

Customers may have purchased any second-hand goods for their business from a non-registered person prior to 1 October 2010 that they have not yet paid for. GST on these goods is accounted for when payment is made, regardless of the accounting basis they use.

When payment is made for the goods and services it is included in the purchases and expenses for the period in which it was made or received. While the GST would be claimed

on this at 15%, the rate change adjustment has already accounted for the difference in GST claimable between the 12.5% and 15% rates. The rate change:

- Compensates for the difference in the two GST rates
- Allows customers to account for all supplies after 1 October at 15%

What are qualifying supplies?

To make the GST rate change adjustment customers will need to identify the qualifying supplies (transactions) that are eligible for the adjustment.

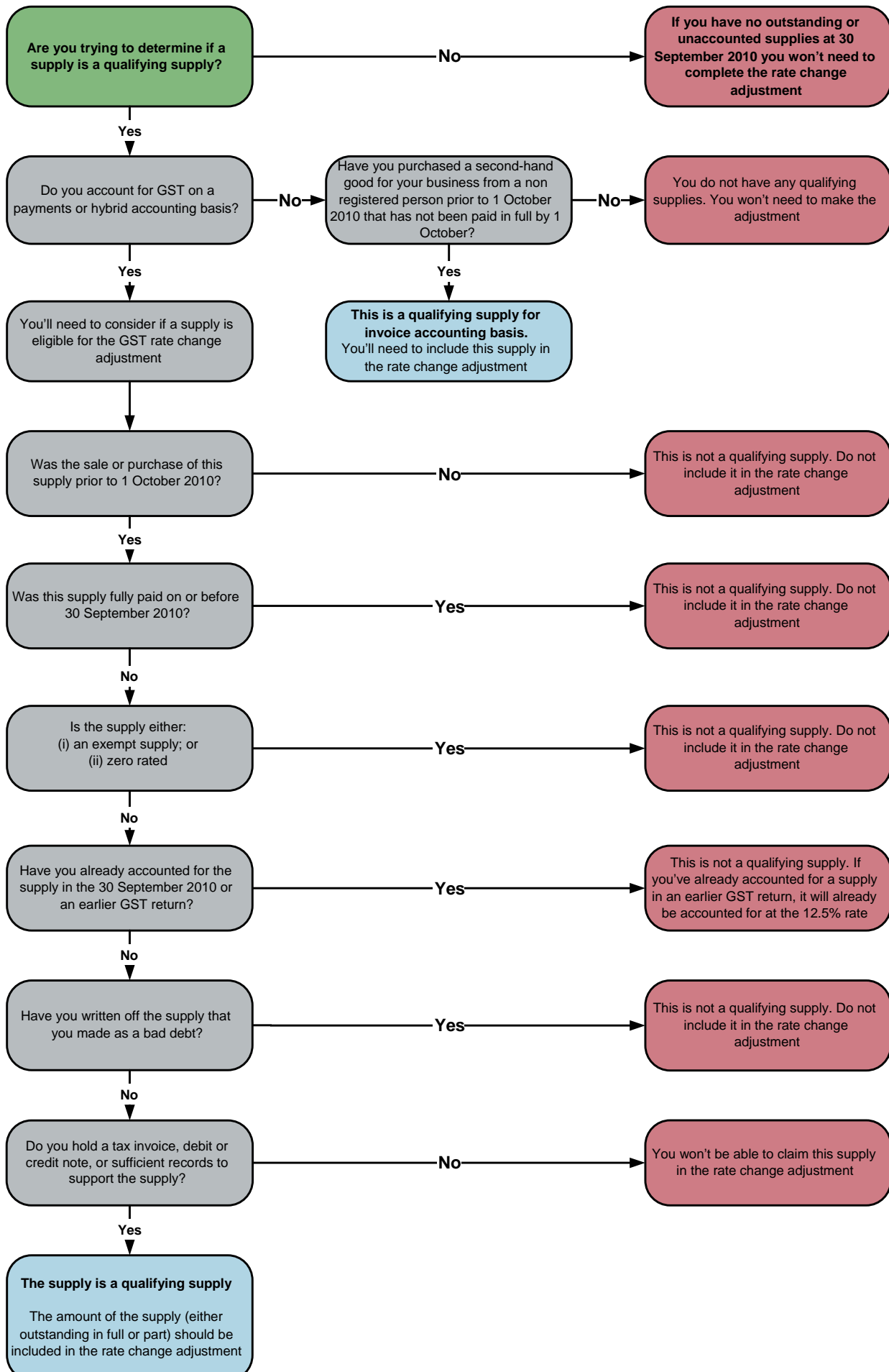
“Qualifying supplies” are:

- those supplies that have been made or received by a customer prior to 1 October for which they have not been paid, or will not pay for, until after this date, and that have not been accounted for in a prior taxable period;
- any second-hand goods purchased from a non GST registered person prior to 1 October 2010, which they have not paid for by that date.

Supplies which are exempt or zero-rated are not qualifying supplies. Not all supplies will necessarily be a qualifying supply eg bad debts written off are not a qualifying supply.

The flowchart on the following page helps identify a qualifying supply. There is also a decision tree on our website which also helps customers identify a qualifying supply.

<http://www.ird.govt.nz/changes/gst/businesses/adjust-rate/budget-gst-decision-tree-q1.html>



How is the adjustment calculated?

Customers will be supplied a *GST rate change adjustment calculation sheet (GST 105)* to assist with the calculation. A copy of the calculation sheet can be located on our website at: <http://www.ird.govt.nz/calculators/tool-name/tools-g/gst105-rate-adjustment-worksheet.html>

To calculate the GST rate change adjustment, customers will need to:

1. Identify their GST accounting basis

A customer's accounting basis determines what qualifying supplies may be claimed:

Payments basis	<ul style="list-style-type: none"> ▪ Adjustment for the purchase of second hand goods from a non-GST registered person on or before 30 September 2010 where a payment will be made after that date. ▪ Adjustment for any item purchased on or before 30 September 2010 where payment will be made after that date. ▪ Adjustment for items sold on or before 30 September 2010 where payment will be received after that date.
Invoice basis	<ul style="list-style-type: none"> ▪ Adjustment for the purchase of second hand goods from a non-GST registered person on or before 30 September 2010 where a payment will be made after that date.
Hybrid basis	<ul style="list-style-type: none"> ▪ Adjustment for purchase of second hand goods from a non-GST registered person on or before 30 September 2010 where a payment will be made after that date. ▪ Adjustment for any item purchased on or before 30 September 2010 where payment will be made after that date. <p><i>Note: Customers on hybrid basis will only account for any purchases and expenses which they have not paid before 1 October 2010. Customers who have received second-hand goods from a non-registered person prior to 30 September 2010 but have not paid for them prior to 30 September 2010 will have to include those supplies in the GST rate change adjustment calculation.</i></p>

2. Identify and separate qualifying supplies into a list of creditors and debtors

- "Qualifying supplies received" are any purchases and expenses which have been invoiced but not paid before 1 October 2010, including any second-hand goods purchased from a non GST registered person but not yet paid for. These are creditors.
- "Qualifying supplies made" are any sales and income for which they have issued an invoice but have not yet received payment before 1 October 2010. These are debtors.

The adjustment is only calculated on the amount that remains unpaid on the goods and services, and has not been written off as a bad debt.

3. Complete the adjustment calculation

The calculation is:

*Total of creditors (A) **minus** total of debtors (B) = **difference between the two (C)***

*The difference (C) is **divided** by 51.75. The answer is the GST Rate Change Adjustment (D).*

Why divide by 51.75?

To calculate the adjustment requires subtracting the previous GST component of 1/9 from the new GST component of 3/23.

$$\frac{3}{23} - \frac{1}{9} = \frac{4}{207}$$

Multiplying an amount by 4 then dividing by 207 will obtain the same result as dividing the amount by 51.75

$$1000 \times (4/207) = 19.32$$

$$1000 / 51.75 = 19.32$$

For ease of calculation we will use the instruction "divide by 51.75" instead of "multiply by 4 then divide by 207" throughout this document.

If A is larger than B then the adjustment (D) will result in additional GST to pay.

If B is larger than A then the adjustment (D) will result in a credit.

4. Accounting for the adjustment

If Box D is GST to pay

If customers:

- do not make other adjustments they take the total from Box D and enter the amount directly into Box 9 or 9A of their GST return for the period ending 30 September 2010
- do make other adjustments they:
 - take the total from Box D and enter the amount into the top "Other" adjustment box on their *GST adjustments calculation sheet (IR372)* for the period ending 30 September 2010, and then take their total adjustments from their IR372 and copy them into either Box 9 or 9A of their GST refund.

If Box D is a GST refund

If customers:

- do not make other adjustments they take the total from Box D and enter the amount directly into Box 13 or 13A of their GST return for the period ending 30 September 2010
- do make other adjustments they:
 - take the total from Box D and enter the amount into the bottom "Other" adjustment box on their *GST adjustments calculation sheet (IR372)* for the period ending 30 September 2010, and then take their total adjustments from their IR372 and copy them into either Box 13 or 13A of their GST refund.

Tax to pay example

Hi-Fi Wholesalers account for their GST on the payments (or cash) basis. Their GST return period ends on 30 September 2010.

On 1 October 2010 they review all their transactions up to 30 September 2010. They identify all transactions that would be classed as a qualifying supply and these are grouped into a list of qualifying supplies received (creditors) and qualifying supplies made (debtors).

Hi-Fi Wholesalers identify that they have a total of:

Creditors - \$8,530.17

Debtors - \$5,401.11

Rate change calculation:

Creditors \$8,530.17 - debtors \$5,401.11 = \$3,129.06

$\$3,129.06 / 51.75 = \60.46

\$60.46 of tax to pay for the rate change adjustment

Hi-Fi Wholesalers do not have any other adjustments for the period and they add the adjustment to Box 9 on the return period ending 30 September 2010.

Credit example

Simon Sounds account for their GST on the payments (or cash) basis. Their GST return period ends on 30 November 2010 and will need to complete a transitional return.

On 1 October 2010 they review all their transactions up to 30 September 2010. They identify all transactions that would be classed as a qualifying supply and these are grouped into a list of qualifying supplies received (Creditors) and qualifying supplies made (Debtors).

Simon Sounds identify that they have a total of:

Creditors - \$9,530.15

Debtors - \$16,125.17

Rate change calculation:

Creditors \$9,530.15 - debtors \$16,125.17 = \$6,595.02 (cr)

$\$6,595.02 / 51.75 = \127.44 (cr)

As Simon Sounds' debtors are larger than their creditors their rate change adjustment of \$127.44 is a tax credit.

Simon Sounds have other credit adjustments for the period of \$351.14. They add the rate change adjustment to the "other" box on their "GST on credit adjustments" and include the amount in Box 13 on the *GST adjustments calculation sheet (IR372)*. The combined credit adjustments for the period of \$478.58 is added to box 13A on the GST transitional return covering the period ending 30 September 2010.

What if a customer can't identify all their qualifying supplies for the rate change adjustment?

Customers should be in a position to identify all debtor qualifying supplies for sales which are not paid prior to 1 October as they will have issued a tax invoice for these supplies. However they may not hold a tax invoice for any purchases they bought but have not paid for prior to 1 October.

If customers don't hold a tax invoice for a purchase at the GST rate of 12.5% when compiling their GST rate change adjustment then that purchase simply isn't included in their list of creditor qualifying supplies.

When they receive the tax invoice, they will account for the GST as a late claim and enter the GST component of the tax invoice as an adjustment in the return when they make the claim. Because the claim will be at 12.5% they shouldn't enter the total amount including the GST as an expense in the period they make the claim.

This means they don't need to delay filing the GST return in which they calculate the GST rate change adjustment as they wait to receive all the tax invoices for their qualifying supplies.

However we would recommend that they obtain as many tax invoices as possible before calculating the one-off GST rate change adjustment, as this will reduce the work involved in making adjustments for the late claims of GST when they do receive the tax invoice.

Debit and Credit Notes

It is possible customers may issue or receive a debit or credit note for a qualifying supply for which they have already made a GST rate change adjustment.

If the qualifying supply has still not been paid then a further adjustment will be necessary to ensure the GST is accounted for correctly. To calculate the adjustment:

- Subtract the GST-inclusive price on the new credit or debit note from the GST-inclusive price on the original tax invoice.
- Divide the result by 51.75
- If the result is a positive amount then this is GST to pay. Include this amount in the "other" box for GST on adjustments and included in the Box 9 total on the *GST adjustments calculation sheet (IR372)*.
- If the result is a negative amount then this is a GST credit. Include this amount in the "other" box for GST on credit adjustments and included in the Box 13 total on the *GST adjustments calculation sheet (IR372)*.
- The adjustment is accounted for on the GST return in which the debit and credit note is issued.

Example

On 28 September Hi-Fi Wholesalers sold Simon Sounds ten home entertainment systems at a total GST-inclusive cost of \$11,250.00. The tax invoice was issued at a GST rate of 12.5% and the GST component of the supply was $(\$11,250.00 / 9 =)$ \$1,250.00. As the amount was not paid as at 30 September both Hi-Fi Wholesalers and Simon Sounds included the transaction in their GST rate change adjustment.

On 18 November, Hi-Fi Wholesalers advised Simon Sounds that the total price for the transaction should have only been \$10,530.11 inclusive of GST (GST component \$1,170.01). A credit note is issued to Simon Sounds for the difference.

Hi-Fi Wholesalers makes the following adjustment:

$$\$11,250 - \$10,530.11 = \$719.89$$

$$\$719.89 / 51.75 = \$13.91$$

As the amount is positive, Hi-Fi wholesalers add the adjustment of \$13.91 to the "other" Box and include this in the Box 9 total on their *GST adjustments calculation sheet (ir372)*. The adjustment is included in the GST return covering the November period.

Late claim of GST

This only applies where the GST claim ought to have been made prior to 30 September 2010 at the 12.5% rate but for whatever reason this did not occur. If customers are unable to claim GST for an expense during the period they paid it (i.e. because they don't have a tax invoice) they can claim it in a future period.

From 1 April 2005 a late claim of GST only applies to transactions incurred in the previous two years. Exceptions to this two-year rule include:

- Inability to obtain a tax invoice
- Disputed payments for expenditure
- Mistakenly treating a supply as non-taxable
- Clear mistakes or simple oversights

With the change in the GST rate on 1 October 2010 it is important that only the GST charged on the expense should be claimed in a later return, rather than recording the late claim as an expense in the period in which it is claimed. The GST component of the late claim will be a credit adjustment for the taxable period in which the claim is made.

Customers must enter the GST amount from the tax invoice(s) for any late claimed purchases or expenses into the "other" GST on credit adjustments in Box 13 of the GST Adjustments calculation sheet (IR372). The total credit adjustments in Box 13 of the calculation sheet are then entered into Box 13 of the GST return.

Customers who file a GST transitional return for the first period following 1 October 2010 will make a GST adjustment for a late claim made on or after 1 October 2010 to Box 13B of the transitional return.

NOTE: The late claim of GST does not apply to supplies that were accounted for in the GST rate change adjustment so no further adjustment will be necessary.

Example

The GST rate to use is the one that applies to the original transaction.

Bronwyn buys a chainsaw for her landscaping business on 22 May 2010 for \$1500 inclusive of GST and makes payment on the day.

Bronwyn reviews the GST transactions for the end of year accounts in March 2011 and notices that the chainsaw was not accounted for in an earlier return.

Bronwyn would have to make a credit adjustment in the next GST return to claim the original input tax credit of \$166.67. Bronwyn can only claim the GST at 12.5% as this was the rate when the time of supply occurred.

Introducing the new legislation changes

There are a number of changes to the GST Act 1985 that have been made. The changes support the Budget 2010 GST rate change and address some consequential matters, as well as supporting some common business practices for the transition period.

Contracts involving successive supplies or periodic payments

This change affects goods supplied under an agreement to hire or services supplied under an agreement which provides for periodic payments where the agreement is set to end or due to be reviewed within thirteen months e.g. general and health insurance cover.

Most of these arrangements span the GST rate change date of 1 October 2010 so some instalments will be at the new GST rate of 15% and some at the old 12.5%.

New Legislation

The amendment allows suppliers of these types of services the option of electing to apply the 12.5% rate for the rest of the period up to the next annual review date (or less if the contract is for a lesser period) provided certain criteria are satisfied.

The criteria are:

- The agreement must begin before 1 October 2010 and end after that date.
- Consideration for the supply under the agreement must be set to end, or due to be reviewed, for periods of 396 days or less.
- The supplier must notify the customer by 31 October 2010 that all payments due on or after 1 October 2010 will be treated as including GST at the rate of 12.5%

To ensure that the payments remain at the 12.5% GST rate, the supplier must also include all payments due on or after 1 October 2010 as income in their GST return that includes 30 September 2010.

If the supplier chooses this option then the time of supply for all payments due on or after 1 October 2010 becomes 30 September 2010. The supplier is also deemed to have issued a tax invoice on 30 September 2010.

Suppliers must notify each customer within 30 days of the rate change day that they have elected to choose this option.

However Inland Revenue also recognises that this may not be practical in the case where there are a large number of small value supplies, so it would also be acceptable to make a statement on a website within the 30-day period to notify customers.

This statement should identify the types of products or agreements covered by the election (if not all policies are to be covered) as well as the respective rate-change periods being covered. In most cases the rate-change period will end on the anniversary of the agreement but it would end earlier if the contract was for less than a year.

The statement should also emphasise that if the customer is a registered person, payments made by them from 1 October 2010 for supplies made in the rate-change period include goods and services tax charged at 12.5%.

Inland Revenue will then expect the supplier to also provide notification to the customer by email or post when next contact would ordinarily be made, to reduce the risk of the purchaser accounting for payments at the incorrect rate of GST.

In all cases, however, we would encourage a GST-registered person to check with their supplier to see if an election has been made to have payments due on or after 1 October 2010 include GST at the 12.5% rate.

Example

A policy for car insurance covers the period 28 April 2010 to 27 April 2011 and the customer chooses to pay by monthly instalments. The insurer normally pays GST when instalments are due or received but elects to apply the transitional rule and returns **all** the remaining GST at 12.5% in the return which covers the September period.

How does the GST registered customer account for the GST on these payments?

How a GST registered customer accounts for payments on or after 1 October 2010 depends on their accounting basis.

If using the invoice accounting basis then all payments due on or after 1 October 2010 are treated as if invoiced on 30 September 2010. They should be included in the GST return that includes 30 September 2010 as an expense at the GST rate of 12.5%.

However, if unable to be accounted for in the GST return that includes 30 September 2010 (for example, if a tax invoice was not held or notification not received before that return is filed) then a late claim can be made. The late claim should be for all the payments due on or after 1 October, and should be made as an adjustment for the GST portion at 12.5%, rather than included as a purchase on a return at 15%.

If using the payments or hybrid accounting basis then the remaining payments due on or after 1 October 2010 should be included in the GST rate change adjustment in the 30 September 2010 return. Once accounted for in that one-off adjustment then the payments can be accounted for in the GST returns in which they are paid at the rate of 15% without further adjustment.

However, if the payments due on or after 1 October 2010 are not able to be included in the GST rate change adjustment (for example, if a tax invoice was not held or notification not received from the supplier) then each payment will need to be accounted for as an adjustment on the GST return in which the payment was made at the rate of 12.5%. The payments should not be entered as purchases in the GST return, as this will result in GST being incorrectly claimed at 15%.

To support businesses the *GST Adjustments calculation sheet (IR372)* has been modified to account for these additional adjustments.

Example

Following on from the previous example, the customer would continue to pay each instalment at the 12.5% rate and if they were GST registered would be able to claim each instalment on their GST return which covers the instalment.

They would however need to make an adjustment in Box 13 on the return to claim the GST.

Amendments or cancellation of the contract

If the contract subject to the transitional rule is cancelled and, therefore the supply is not fully provided, the supplier businesses would need to issue credit notes to adjust for the change and the GST incorrectly paid.

If a customer becomes aware that their supplier chose to treat payments at 12.5% after they had accounted for some payments at 15% then the normal guidelines apply to correct mistakes on a GST return.

Finance Leases

In agreements to hire that are finance leases, GST is applied to the supply of the goods (for example a motor vehicle) but not to the finance component of the transaction as financial services are GST-exempt.

Like a table mortgage, while the total amount of each lease payment will generally be the same for each payment, the proportion that is in respect of the supply of the goods and the proportion that is in respect of the financial services will change during the term of the lease.

The amount of GST that should be accounted for on each payment (on the supply of the goods) should change for each payment. This makes things very complicated and the Commissioner allows, as an alternative, GST to be accounted for on finance leases to be on a straight line basis. (More information regarding the straight line method is in *Tax Information Bulletin Vol 8 No 1 (July 1996)*).

A rate change in the middle of a contract term would cause additional compliance costs in the way GST was calculated in each payment due after the rate change. Accordingly the legislative change allows finance leases whose term begins before 1 October 2010 and the agreement is for a term of five years or less to continue to be able to be accounted for at the 12.5% rate provided that:

- By 31 October 2010, GST-registered lessees (recipients) are advised by the lessors (supplier) to deduct input tax at the 12.5% rate on payments made after 1 October 2010.

This solution will be elective, at the option of the supplier.

A finance lease is not defined in the GST Act 1985, however to apply this option a finance lease has to meet these requirements:

- The recipient of the supply must make periodic payments during the term of the agreement towards the goods supplied under the finance lease.
- Part of the amount payable under the agreement will be towards the consideration for credit (ie interest) under a credit contract
- If the agreement is to end early, the final amount of GST calculated for the supply of goods will be calculated on the basis that the amount paid towards the interest will have decreased with each periodic payment.

The lessee will continue to pay each lease payment at the 12.5% rate for the rest of the lease contract. They will need to make an adjustment in Box 13 on the return to claim the GST at that rate.

Example

Get a Car Lease supplies Superfast Net a car on a finance lease for 3 year term on 20 February 2009. The lease payments are \$350 per month plus GST.

Get a Car Lease elects to take advantage of the new legislative provision so they can continue to account for the GST on the payments they receive from Superfast Net at 12.5%. They advise Superfast Net of their intention to keep payments the same with GST at 12.5%.

Get a Car Lease will need to make an adjustment on GST returns (Box 9) from 1 October for income received from these finance leases still on GST at 12.5%

Superfast Net will need to make an adjustment on GST returns (Box 13) from 1 October for the payments they make for the finance lease still at 12.5%.

Layby

The amendment changes the existing layby time of supply rules for a sales contract that spans the GST rate change date and for which a binding contract was in place before Budget night (20 May 2010).

This allows suppliers to elect to apply the old 12.5% GST rate to the extent that any payments in relation to the transaction were received before 1 October 2010.

Under this option, the supplier will be required to return payments made up to 30 September 2010 in their GST return including 30 September 2010. Any payments made from 1 October 2010 will need to be at 15%.

Once the layby is complete (i.e., ownership of the goods under lay by has passed to the purchaser) then all payments made on or after 1 October until the end of the arrangement will be accounted for at 15% in the return covering the month in which the arrangement was completed.

Example

A customer enters into a layby agreement with a supplier for a large TV on 10 April 2010. The customer pays the supplier an amount every fortnight until they pick up the television on 15 December 2010.

The supplier can elect that all the payments they have received up to and including 30 September will include GST at 12.5%. They will include the total of all payments received up to and on 30 September 2010 in their sales for the return period covering September. The supplier will need to issue an invoice for the total of these payments.

The payments received after 1 October will be subject to GST at 15%. The supplier will include the total of the payments received between 1 October 2010 and 15 December 2010 in the return covering December 2010 at 15%. The supplier will need to issue an invoice for the total of these payments.

If the customer were GST registered they would claim the GST on the lay by payments up to 30 September at 12.5% and the rest at 15% when the item is paid for in full.

Insurance receipts

When a GST registered person receives an insurance payout from their insurer in relation to a loss incurred in the course of their business, they are required to pay GST on that payment.

Currently the time of supply for these payments occurs on the day the registered person receives the payment.

A payment made by the insurer in late September 2010 may not be received by the insured registered person until October 2010. This would mean that the registered person has to pay GST at the rate of 15% on the payment, even though the payment was made at the old GST rate of 12.5%. The overall payment the registered person receives may not fully reflect the loss the insurance company intended to cover.

The new legislative amendment provides some leeway for payments that may be paid out in September but not received until October. A payment under a contract of insurance received on or after 1 October 2010 is treated as being received on 30 September 2010 if:

- the payment is made before 1 October 2010; and
- the GST registered insured person receives the payment on or before 11 October 2010.

If these criteria are met then the old 12.5% rate of GST applies to the payment in these circumstances.

Example

Melissa runs a small accountancy business and she has taken out a business assets insurance policy with her insurance company. Following a burglary at her office, Melissa made a claim with her insurance company seeking compensation for the theft. On 29 September 2010 the insurance company made a payment to Melissa. She received the payment on 4 October 2010.

GST on the payment will be at 12.5% because:

- the claim was made before 1 October, and
- the payment was received on or before 11 October.

Melissa will need to make an adjustment for the payment on her GST return which covers the October period.

Subrogation Payments

A subrogation payment is a recovery amount received by an insurance company for the damages caused by a third party to their customer.

The time of supply for these payments is to be the day on which the insurer receives the payment. This means subrogation payments received on or after 1 October 2010 will be subject to the new 15% GST rate, even when the underlying claim to which the payment relates was at 12.5%.

A legislative change allows the insurer the option to keep the rate of GST at 12.5% for subrogation payments received on or after 1 October 2010 to the extent that the underlying claims are agreed and either:

- are paid by the insurer before 1 October 2010, or
- the insurer has unconditionally agreed the recovery amount before 1 October 2010.

Private Training Establishments

Private Training Establishments (PTEs) are registered with the New Zealand Qualifications Authority (NZQA) and are required to use a trust arrangement when students pay their course fees in full. This is to help protect students from the risk that their intended course provider does not deliver the course. As the courses are delivered, the trustee progressively pays out the funds to the PTE.

In the absence of any law change, any payments released by the trust to the PTE after 1 October 2010 would be accounted for at the new 15% rate even when students have paid the full course fees before 1 October 2010. This is because the services are considered to be supplied when the payments are released to the relevant PTEs. It would be impractical for the PTEs to seek additional payments from the students.

Instead registered PTE's have the option of making an up-front adjustment in their 30 September GST returns that gives them a credit to cover the additional GST payable when course fees held in trust as at 30 September 2010 are subsequently released to them. This applies irrespective of whether the PTE returns GST on an invoice, hybrid or payments basis.

The credit is based on the amount held in trust for the PTE as at 30 September 2010.

Example

X Training is a registered PTE. X Training has \$81,560 in student course fees owing to them for summer courses beginning from 1 November, which are held in trust as at 30 September 2010.

X Training elects to take advantage of the legislative change and will make an up-front adjustment in the return which covers the 30 September period.

The adjustment is similar to the GST rate change adjustment but would be based only on the debtors amount (ie the course fees that are owed to them being held in trust). The calculation for X Training would be:

\$81,560 divided by 51.75 equals \$1,576.04 (credit)

The \$1,576.04 credit would be added to Box 13 on their GST return which covers the 30 September period.

When the course fees are released to X Training in November 2010, the payments will then be accounted for as a taxable supply at the 15% GST rate. The adjustment X Training made in September will compensate them for difference between the two GST rates

Alignment of legislation and practice

Issuing tax invoices and successive supplies

The date when the invoice is issued is relevant for determining the time of the supply. If an invoice were issued on or after 1 October for goods and services supplied prior to the rate change the GST would be applied at the 15% GST rate.

However, for some suppliers, it is their normal business practice to issue an invoice shortly after the good or service is supplied, which may mean a sale which was made in late September 2010 at 12.5% will end up with GST being accounted at 15% when the invoice is issued.

Another issue is that the GST rate on a successive or periodic supply is determined by when the payment is due or received rather than when the invoice is issued. Power and gas utilities and phone rental companies are examples of businesses which supply a service successively.

With a rate change some suppliers are uncertain about whether a September invoice, for example, would need to be charged at 12.5% or at 15% as this could be dependent on whether the customer paid or was required to pay before 1 October.

New Legislation

For the transitional period a change to legislation has been announced to address both of these issues. Suppliers may elect to continue to issue tax invoices at 12.5% rate for goods or services provided that the:

- invoice is issued in the same way as normal billing practices, and
- invoice is issued on or before 11 October 2010, and
- the invoice is dated on or before 30 September; and
- payment is due no later than 60 days after the invoice date.

The cut-off date of 11 October has been chosen to provide two weekends to send out invoices in relation to September supplies. Any tax invoice issued after 11 October for supplies that occurred prior to the rate change will need to reflect the 15% GST rate.

The time of supply will be the date on the tax invoice (not the day the tax invoice was issued).

To elect to use this transitional provision the supplier will need to account for the supply according to their accounting basis as of the date on the tax invoice.

If they are on the invoice or hybrid accounting basis the sale will need to be included in their return that covers the date on the tax invoice.

If they use the payments accounting basis they will need to include the amount on the invoice in their debtor qualifying supplies for their GST rate change adjustment unless payment for the invoice was also received prior to 1 October 2010.

Example 1

A flower wholesaler supplies flowers to a florist during the month of September 2010. The wholesaler generally issues their invoices on the 5th of the following month for the supplies after the previous month has closed. These invoices are dated the last day of the previous month. Payment for the supply is due 30 days after the invoice is issued.

The wholesaler can elect to take advantage of the legislation change as:

- The issuing of the invoice is consistent with what they are currently doing,
- The invoice will be issued before 11 October 2010,
- The invoice will be dated 30 September 2010, and
- Payment for the goods and services is due within 60 days of the invoice date.

The wholesaler files monthly returns and accounts for GST on the invoice accounting basis. They include the transaction on the return which covers the 30 September 2010 period.

NOTE:

If the wholesaler did not choose this method or they did not meet the criteria listed above, then any invoice issued on or after 1 October 2010 will be subject to GST at 15% and will be accounted for in the GST return covering the date of the invoice.

Example 2

Superfast Net supplies broadband internet services to Company Z. They create and date their invoices on the last day of the month, and send them out on the 5th of the following month. They elect to take advantage of the new legislation to avoid charging customers for their September services at the 15% GST rate.

Superfast Net can elect to use the payment due or received date because:

- The issuing of this invoice is consistent what they are currently doing,
- The invoice is issued by 11 October 2010, and
- The invoice for the supply is dated on or before 30 September 2010, and
- Payment is due not later than 60 days from the invoice date.

Superfast Net would account for the income on their return which covers the 30 September 2010 period.

Example 3

Superfast Net supplies broadband Internet services to Company TT. Unlike the last example they bill in advance of the service being delivered. They send out their invoices for the next month's service on 5th of the month but dated the last day of the previous month. They elect to take advantage of the new legislation to avoid charging customers for the October services at the 15% GST rate.

Superfast Net can elect to use the payment due or received date because:

- The issuing of this invoice is consistent what they are currently doing,
- The invoice is issued by 11 October 2010, and
- The invoice for the supply is dated on or before 30 September 2010, and
- Payment is due not later than 60 days from the invoice date.

Superfast Net would account for the income on their return which covers the 30 September 2010 period.

Debit and Credit notes and Replacement tax invoices

The general rule is that when a supplier identifies that a change to an original invoice is required (for example: returned goods, incorrect price) a debit or credit note needs to be issued to correct the difference. The GST rate used on the debit and credit note depends on which rate was used on the original tax invoice.

- Credit or debit notes issued with respect to tax invoices issued before 1 October 2010 will have GST calculated at 12.5% for the amended GST-inclusive price.
- Credit or debit notes issued with respect to tax invoices issued on or after 1 October 2010 will have GST calculated at the new GST rate of 15%

The GST component of any credit or debit notes received or issued should be accounted for as an adjustment on the GST return for the period in which the note was issued, in either Box 9 or Box 13 as appropriate.

New Legislation

For the transitional period two legislation changes have been announced. Both are elective options that can be used instead of the general rule as explained above.

1. Replacement tax invoices instead of debit notes

When there is an increase in price after 1 October for a tax invoice originally issued at 12.5%, for example, if the supplier is increasing the agreed price of successive supplies due to the increase in GST for payments due after 1 October 2010, then a replacement tax invoice can be issued instead of a debit note.

Replacement tax invoices issued after 1 October 2010 instead of debit notes must have GST included at the rate of 15%.

2. Replacement tax invoices

Where there is a need to issue a credit note to correct a tax invoice issued prior to 1 October, a replacement tax invoice can be issued which revises the original invoice, as an alternative to issuing a credit note. The GST rate used on the tax invoice is the same rate that was on the original invoice that was issued.

Both options would be accounted for as an adjustment on the GST return as explained in the general rule. Debit and credit notes must be used to correct tax invoices dated on or after 1 October 2010

Example 1

Lease a Building leases a commercial building to Superfast Net on 15 June 2010 and provides a tax invoice outlining the payment amount including GST. Lease a Building increases the amount of the lease to compensate for the GST rate change. Instead of issuing a debit note they elect to send a replacement invoice on 5 October 2010 for the difference between the original invoice issued in June and the new one issued in October.

Both companies would return the invoice as an adjustment on their GST return that covers the October GST period.

Example 2

Donut Manufacturing supplies Homer's Donuts with frozen donut dough on 11 July 2010. Donut Manufacturing issues an invoice for the supplies on 20 July 2010. Homer's Donuts uses the dough over the next five months but notices in November that a proportion of the supplies are faulty.

Instead of issuing a credit note, Donut Manufacturing elects to issue a replacement tax invoice on 20 November for the faulty supplies for the difference between the original invoice issued in July and the new one issued in November. Donut Manufacturing also has the option to invoice for supplies excluding the faulty supplies or cancel the original invoice.

Both companies would return the invoice as an adjustment on their GST return that covers the November GST period.

Time of Supply

The previous section explained the new legislation changes for the GST rate change transition period and their effect on a transaction's time of supply. Apart from these changes the general time of supply rule applies for most transactions when there is rate change.

General Time of Supply Rule

The general rule is that a supply is considered to take place at the earlier of the time an invoice is issued or the time any payment is received by the supplier.

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.

How to account for GST on a transaction

Determining which period to account for GST depends on the accounting basis people have chosen to use. These are:

- Persons on an invoice basis can claim GST when they issue or receive an invoice and account for GST when they receive an invoice or receive any payment in respect of that supply (whichever comes first).
- Persons on payments basis account for GST or claim GST to the extent to which they make or receive any payment during a taxable period.
- Persons on a hybrid basis account for GST on their sales (income) using the invoice basis and claim GST on their expenses (purchases) using the payments basis.

Specific Time of Supply Rules

Although the general time of supply rule applies for most transactions, the GST Act provides special time of supply rules for some specific transactions. These are listed in the following section along with any changes resulting from legislation passed to support Budget 2010.

Note: Please refer to the glossary on page 81 of the *GST Guide (IR 375)* for definitions of terms used in this document. All months relate to 2010 unless noted otherwise.

Repossessions

Applies to goods sold in satisfaction of a debt owed.

Rule	When to account / Rate / Example
Time of supply is the earlier of when an invoice is issued or any payment is received.	The repossessed goods are accounted for in period that the goods are sold.
The repossessed goods are accounted for in the period when the good(s) are sold and the GST rate is determined by when the good(s) are sold.	<p>Example</p> <p>Gordon sells a \$1,200 fridge on hire purchase to Bridget for her restaurant on 16 May 2010.</p> <p>Gordon accounts for GST of \$133.33 ($\\$1,200 \div 9$) in the return covering the period in which the agreement was made.</p> <p>Bridget doesn't keep up the payments. Gordon repossesses the fridge and sells it again on 15 October. He then files a special return for goods sold in satisfaction of debt (IR373). The GST rate that would be applied is 15%.</p>

	The sale after repossession, and the GST to be accounted for on it, is still considered to be made by Bridget.
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Ceasing GST registration

Applies to goods retained on cessation of GST registration.

Rule	When to account / Rate / Example
<p>Time of supply occurs at the time immediately before cessation of GST registration.</p> <p>If goods are kept after the cancellation of the GST registration, the retained goods are accounted for in the period cessation occurs in.</p>	<p>The retained goods are accounted for in period which cessation occurs.</p> <p>Example</p> <p>Nathan is a registered person who runs a taxi business. He retired on 30 September and kept his taxi for personal use. The value of the asset is based on current market value is \$15,000.</p> <p>In his final GST return he included one-ninth of \$15,000 (\$1,666.67) in the total adjustments in Box 9, having transferred this amount from his IR 372 calculation sheet.</p> <p>If Nathan chooses to retire instead on 31 October, he would have to account for GST at the new rate of 3/23 on the value of the car (\$1956.52). He would have had to pay additional GST of \$289.85 if he retired on 31 October.</p>

Road user charges (RUC)

Rule	When to account / Rate / Example
<p>For RUCs, time of supply occurs when any payment is made to the New Zealand Transport Agency or one of their agents. The supply is accounted for in the period when the payment is made.</p>	<p>The supply is accounted for in period when payment made.</p> <p>Example</p> <p>Glen purchased 10,000km of RUC for future use at NZ Post on 20 September; the GST on this purchase would be 12.5%.</p> <p>Example</p> <p>Amy purchases 5,000km of RUC for future use at NZ Post on 10 November 2010, so the GST on this purchase would be 15%.</p>

Election deposits

Applies to National and Local Authority Elections.

Rule	When to account / Rate / Example
<p>Time of supply occurs when the deposit is forfeited.</p>	<p>The supply is accounted for in period of forfeiture.</p> <p>Example</p> <p>Steve is a local political party secretary and makes a deposit of \$3000 to the electoral officer on 1 September for three candidates. The election is held on the 10 October.</p>

	Two of Steve's candidates get elected but one gets fewer votes than the minimum number of votes required for the election as per the Local Electoral Act 2001. The deposit for the unsuccessful candidate is forfeit and GST of 3/23 of \$1000 has to be accounted for on GST return that includes October period.
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Stamps, Tokens, or Vouchers

Includes phone cards, transportation tickets etc

Rule	When to account / Rate / Example
<p>The supplier should treat stamps, tokens or vouchers as a supply for GST purposes at the time a customer buys them.</p>	<p>Generally, a supply takes place when tokens, stamps and vouchers are issued, not when the vouchers are redeemed.</p> <p>Example</p> <p>Peter buys a \$50 voucher from Soundz in Wellington on 15 September and gives this as a gift to Jonathan in Auckland. Jonathan buys CDs with the voucher at Music Time in Auckland on 1 November.</p> <p>The supply takes place when Peter buys the voucher and Soundz accounts for the sale at a GST rate of 12.5% on the return which covers the September period.</p> <p>There are circumstances whereby the issuer of the voucher and the supplier of the goods or services can agree to recognise the supply on redemption of the voucher.</p> <p>Example</p> <p>Soundz stores nationwide which are independently owned but affiliated, agree that when a store reimburses another store for redeeming a voucher, is when a supply takes place, rather than when the voucher is sold. Music Time would account for the sale at the GST rate of 15% on the return which covers the November period.</p> <p>The redemption option doesn't apply to postage stamps and vouchers sold to a non-resident for services performed in New Zealand. The supplier has to account for GST on these items when the customer buys them.</p>

Payments received from an Insurance Company

Important Note: refer to page 27 for new legislative changes regarding the receipt of insurance payments.

This does not include payments in the form of levies or premiums made to an insurance company.

Rule	When to account / Rate / Example
Time of supply is the day on which the payment is received.	<p>The supply is accounted for in the period of receipt of payment.</p> <p>Example</p> <p>Melissa (registered person) has a business asset insurance policy with AMP. Two months after a burglary in her garage, Melissa received a payment on 15 October from AMP as compensation for the theft. GST is accounted for in the return which covers the October period at the new rate of 15%.</p>

Imported Services

If customers receive imported services from an overseas supplier they may need to account for GST on the cost of the services, whether they are currently registered for GST or not. This is the “reverse charge” mechanism. It requires them to add GST (12.5% or 15% after 1 October) to the price of the services they’ve received.

They include that amount in their GST return and pay it to us if:

- the services are supplied by a non-resident supplier to a recipient who is a New Zealand resident, and
- the services are acquired by a person who:
 - hasn’t, in the 12-month period that ends with the month in which the supply is made, made supplies of which at least 95% in total are taxable supplies, and
 - doesn’t, at the time of the supply, have reasonable grounds for believing that they will, in the 12-month period that begins with the month in which the supply is made, make supplies of which at least 95% in total are taxable supplies, and
 - the supply of the services would be a taxable supply if it were made in New Zealand by a registered person in the course of their taxable activity.

Rule	When to account / Rate / Example
General time of supply rule applies.	<p>Example</p> <p>An offshore computer company makes a supply of programming services to a New Zealand life insurance company over a six month period from 1 May to 31 October.</p> <p>The life insurance company makes solely exempt supplies of services. It is charged \$1 million for the programming services, which it pays on receipt of the services on 10 November. An invoice is provided after payment is made.</p> <p>The two companies are not associated persons.</p> <p>In this situation:</p> <ul style="list-style-type: none"> • The services are supplied by a non-resident supplier to a resident recipient. • The services are acquired by a person who has not in the last 12 months made (and does not expect in the next 12 months to make) supplies of which at least 95% in total are taxable supplies. • The supply of the services would be a taxable supply if it were made in New Zealand by a registered person in the course or furtherance of their taxable activity.

	<p>The New Zealand insurer is required to register for GST if it is not already registered. It is required to account for GST on the value of the supply. The value of the supply is \$1 million, so the output tax is \$150,000 (GST rate of 15% applies) and is accounted for in the return which covers the November period.</p> <p>Refer to Tax Information Bulletin Vol.16, No.10 (November 2004) for more information.</p>
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Supplies to associated persons

These include:

- companies controlled by the same persons
- companies and persons with a 25% or greater interest in the company
- partnerships, partners and associates of partners
- relatives by blood, marriage or adoption, to the second degree (including people in a de facto relationship)
- trustees of a trust and persons who have benefited or are eligible to benefit under the trust
- trustees and the settlor of a trust, except where the trustee is a charitable or non-profit body
- trustees of two trusts which have a common settlor
- two persons who are each associated with a third person

A New Zealand branch or division of a non-resident entity is treated as a separate entity from its on-resident head office for any imported services supplied from the non-resident to the New Zealand branch or division.

Rule	When to account / Rate / Example
<p>Time of supply is when:</p> <ul style="list-style-type: none"> • goods are removed or made available to a recipient. • services are performed. <p>If payment is made or an invoice issued before any of these happens, then general time of supply rule applies.</p>	<p>If time of supply is performance then it's accounted for in the period this occurs in. This determines the rate which applies for all customers.</p> <p>Example</p> <p>John and Carol are associated persons. John supplies Carol with business cleaning services which were performed on 10 September. John does not supply Carol with an invoice until 20 October. Both John and Carol account for GST of 12.5% on the service on the return which covers the September period.</p> <p>If Carol paid for the service on 30 August then both John and Carol would account for the GST on the return which covers the August period.</p> <p>Example</p> <p>Richard and Shane are associated persons. Richard supplies Shane with some goods that are available for Shane to pick up from 10 October at Richard's warehouse. Shane picks up the goods on 15 October. The rate of GST that will apply will be 15%. The time of supply will be 10 October as this is the date they are available. Both Richard and Shane would</p>

	<p>account for the GST on the return which covers the October period.</p> <p>If Richard supplied an invoice to Shane for the goods on 15 September when the agreement to buy occurred, the time of supply would be 15 September and the GST rate that would apply is 12.5%.</p>
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Door to door sales

Rule	When to account / Rate / Example
<p>Time of supply occurs when the seven day (or one month) cancellation period expires (i.e. the day after this period expires.)</p>	<p>As the supply is accounted for in the period in which the cancellation period expires, businesses involved in door-to-door sales will need to charge GST at 15% earlier than 1 October 2010, because the time of supply will be after 1 October.</p> <p>Example</p> <p>Lesley, a door-to-door salesperson, sells an item on 30 September 2010, the last day of the taxable period. The eighth day after the sale is 8 October 2010. She includes the full price for the supply using the 15% GST rate. Lesley accounts for the transaction in the return which covers 8 October 2010.</p>

Layby sales

Important Note: Refer to page 26 for new legislative changes to Layby sale time of supply rules

Rule	When to account / Rate / Example
<p>Time of supply occurs when the title of the goods passes to the recipient of the supply; this is usually when full payment is made.</p> <p>If the sale is cancelled the supply occurs at that date.</p>	<p>Retailers who use lay-by sales will need to account for the new rate of GST when they set up any arrangement to pay that will span the GST rate change.</p> <p>Example</p> <p>Craig buys a Blu-Ray player on lay-by from Soundz Ltd in August 2010. The GST rate that applies to the purchase will depend when the final payment is made. If the final payment is made:</p> <ul style="list-style-type: none"> • before or on 30 September 2010, the GST rate applied to the transaction is 12.5% • on or after 1 October 2010, the GST rate applied to the transaction is 15%. <p>If Craig cancelled the arrangement to buy, the GST rate that would apply depends on the date of this cancellation. If the cancellation is made:</p> <ul style="list-style-type: none"> • before or on 30 September 2010 the GST rate applied to the transaction is 12.5% • on or after 1 October 2010 the GST rate applied to the transaction is 15%.

Lotteries and other games of chance

If you run raffles, lotteries, or other games of chance, you must account for the proceeds of the lottery (such as total sales of tickets or cards) less the total amount of cash prizes.

Rule	When to account / Rate / Example
<p>Time of supply occurs at the time of the first draw or determination of a result.</p> <p>There is no specific rule for Instant Kiwi type games etc so the general time of supply will apply, (i.e. when payment for the Instant Kiwi game is made.)</p>	<p>The supply is accounted for in the period that the first draw takes place.</p> <p>Example</p> <p>Total proceeds of a raffle were \$1,070 (535 tickets at \$2 each). Cash prizes were:</p> <p>1st \$ 500 2nd \$ 200 3rd \$ 100 Total \$ 800</p> <p>Total proceeds \$ 1,070 Cash prizes \$ 800 Difference \$ 270</p> <p>The draw for the raffle was 31 October. \$270 must be included as sales and income of the return covering the October 2010 period when the raffle was drawn. The GST rate of 15% will apply.</p>

Machine or meter operated by a coin or token

Rule	When to account / Rate / Example
<p>Time of supply occurs when the coins or tokens are removed from the machine or meter.</p> <p>If you make a supply through a token-operated device or machine, you account for the tokens in the same way as other tokens, stamps or vouchers. The supplier should treat the token as a supply for GST purposes at the time the customer buys them.</p> <p>If you receive business goods or services through a coin or token-operated machine, you may claim a GST credit in the period you paid the money.</p>	<p>The supply is accounted for in the period in which this event occurs.</p> <p>Example</p> <p>Dave supplies snack vending machines to office buildings. He is due to clear the coins from their machines on 30 September 2010 but is unable to clear the machine until 2 October 2010.</p> <p>Dave has to account for GST at the 15% rate on the total value of the coins cleared from the machines. The value and GST will be accounted for on the return covering the October period.</p> <p>Example</p> <p>Susanna parks a company car at the airport on 30 September 2010 for a two-day business trip. She returns on 1 October 2010 and pays the parking fee.</p> <p>The transaction can be claimed for GST purposes at the 15% rate and accounted for on the return which covers the October period.</p>

Gambling in Casino Venue

Rule	When to account / Rate / Example
Time of supply occurs at the time when the casino count takes place.	<p>The supply is accounted for in the period in which this casino count occurs.</p> <p>Example</p> <p>Mike runs a casino and makes the casino count at 11pm each day. On 30 September the count does not take place at 11pm and is performed at 1am on the 1 October. The GST rate which applies to this count is 15% and will be accounted for in the return which covers the October period.</p>

Gaming Machine Duty (GMD) and Problem Gambling Levy (PGL)

Rule	When to account / Rate / Example
<p>Gaming machine operators must calculate and pay GMD for each calendar month. GMD is payable on the gaming machine profits for the month for all machines.</p> <p>If an organisation is registered for GST, the gaming machine profits must be GST-inclusive. PGL is calculated at 1.48% of all gaming machine profits plus GST.</p>	<p>Example</p> <p>Colin operates gaming machines in a local sports club and bar. He is required to send Inland Revenue a return and payment by the 20th of the month following the month in which the gaming machine profits were collected. Colin is registered for GST and files GST returns on a two-monthly (odd) basis.</p> <p>Colin's GMD return and payment for September 2010 are due on 20 October 2010. The PGL, which is subject to GST, is included on the GMD return.</p> <p>The rate of GST will change to 15% from 1 October 2010. The general time of supply rule applies to the PGL. A payment of the PGL will trigger the time of supply and any GMD return filed with a payment made from 1 October 2010 will be subject to GST of 15% on the PGL.</p> <p>As Colin's September 2010 GMD return is due on 20 October 2010, his return has already been updated to show GST on the PGL at 15%. If Colin had prior outstanding GMD returns, he must pay GST on the PGL at 12.5% if filed before 1 October 2010, otherwise GST applies at 15% from 1 October 2010.</p> <p>Colin's GST return and payment for the period ended 30 September 2010, due on 20 October 2010 which includes the PGL, will be subject to GST of 15%.</p>

Periodic payments and hire agreements

Important Note: Refer to page 23 for new legislative changes to the time of supply rules regarding periodic payments and hire agreements

Rule	When to account / Rate / Example
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<p>Periodic payments and hire agreements are treated as a series of separate supplies for each period of the agreement. The time of supply is the date payment is due or received, whichever is earlier.</p>	<p>If customers use the:</p> <ul style="list-style-type: none"> • invoice basis they account for the supply in full in the period the earlier of the date payment is due or received happens in • payments basis they account for tax at the rate applying when payment is received or made. <p>Example</p> <p>Sean hired a piece of machinery from Vincent on 1 June 2010 for six months. Sean advises that they will require monthly payments due on 20th of each month. GST of 15% will apply on payments due after 1 October 2010.</p>
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Successive supplies and progress payments

Important Note: Refer to page 23 for new legislative changes to the time of supply rules for successive supplies and progress payments

Must be either:

- Goods supplied progressively or periodically, and paid for in the same way; or
- Goods and services supplied directly in constructing, manufacturing or extending a building, or civil engineering work, with payments made periodically as the work progresses.

Rule	When to account / Rate / Example
<p>The time of supply is the time when a progress payment was made or when an invoice was issued, whichever was earlier.</p>	<p>For a progress payment received or invoiced after 1 October 2010, the rate of GST will be 15%.</p> <p>Example</p> <p>We Make Roads Ltd wins a tender to build a new road linking two suburbs for a local council on 1 June 2010. The work will take eight months. We Make Roads Ltd will invoice the council for work performed every month during the construction period. From 1 October 2010 the company will have to ensure that all progress payments for the contract are at the 15% GST rate.</p>

Hire purchase agreements

Rule	When to account / Rate / Example
<p>Time of supply occurs at the time the agreement is entered into.</p>	<p>Example</p> <p>Yendis buys a carpet on hire purchase from Jason on 7 June 2010 which includes GST at a rate of 12.5%. As the agreement was entered into before 1 October 2010, Jason's agreed repayments will not increase due to the increase in GST. If the agreement was entered into on 2 October 2010, the GST that would apply is 15%.</p>

Full price not known at time of supply

Rule	When to account / Rate / Example
<p>If goods are sold in this manner and you use the invoice or hybrid basis, include the GST in the earliest period that an invoice is issued for any part of the supply, or a payment is due, or a payment is received.</p> <p>If you purchase goods where the full price is not known, and you use the invoice basis, you claim a credit in the earliest taxable period that you receive a tax invoice, or you make a payment, or a payment is due. Include the total amount invoiced, due or paid.</p> <p>For purchases under the payments or hybrid basis, you claim a credit when you make a payment.</p>	<p>Example</p> <p>Jeremy, a farmer, sells produce to an exporter for a down payment on 18 September 2010 plus an end-of-season catch-up based on export prices in December 2010. Jeremy accounts for the down credit immediately at the GST rate of 12.5%.</p> <p>The catch-up payment is accounted for when it is due, or received, or when an invoice is received, whichever is earlier. If the catch up payment is received in December 2010 as agreed the payment will be subject to GST at 15%.</p>

Local Authority Rates

Registered persons may claim GST for payments of rates for premises used in a taxable activity.

Rule	When to account / Rate / Example
<p>The time of supply for rates is on the earlier of:</p> <ul style="list-style-type: none"> the date of an instalment notice for a single payment, or the due date for payment, or the date when payment is received. 	<p>Example</p> <p>We Make Roads Limited receive a rates notice from their local council at the start of July 2010. They are given the option of making payment for the full amount of the rates or in four instalments. They choose to pay in instalments.</p> <p>We Make Roads Limited receive a notice for the instalment for the quarter ended 31 December 2010 on 20 December 2010. The due date is 5 February 2011. We Make Roads Limited make a payment on 4 February and account for the rates in the return covering the December 2010 period. The GST rate will be 15%.</p> <p>If they had chosen to pay all the rates in one payment in July 2010, the GST rate would have been 12.5% and they would account for them in the return covering July 2010.</p>

GST on goods imported through New Zealand Customs

Rule	When to account / Rate / Example
<p>Time of supply occurs when:</p> <ul style="list-style-type: none"> goods are entered or delivered for home (New Zealand) consumption, or licensed goods are entered for a delivery to a manufacturing area. 	<p>Example</p> <p>Paul imports a specialised truck for his business which arrives on 30 September 2010. Customs charge GST of 12.5% on the value of the truck. Paul accounts for the truck within the adjustments section of the return covering the September period.</p> <p>If Paul is using Customs deferred payment system and is issued a deferred payment of duty statement that requires payment to be made at a later date, the GST will still be applied at the date the goods were imported, (i.e. 12.5%.) If the truck was delayed and arrived on 10 October 2010, GST of 15% would apply. Paul would account for the truck within the adjustments section of the return covering the October period.</p> <p>Find out more on Custom's website www.customs.govt.nz</p>

Supply (transaction) of greater than \$225,000

Rule	When to account / Rate / Example
<p>Regardless of accounting basis the transaction must be accounted for using the invoice basis.</p>	<p>The general time of supply rule applies.</p> <p>Example</p> <p>Garrick is registered for GST and accounts using the payments basis. He sells a fishing boat on delayed settlement terms for \$350,000 on 15 September 2010. The invoice is dated the same date. A deposit of \$50,000 is paid on 15 September. Garrick must account for the full amount of GST at 12.5% (\$38,888.89) in the return period covering September.</p> <p>One exemption to this rule is if the transaction relates to "short term agreements for the sale and purchase of property or services". To be a short-term agreement, the general rule is that settlement must take place, or services must be performed, within 365 days of the date the agreement is entered into.</p> <p>Example</p> <p>Jim is selling a commercial property on 1 September 2010 with a settlement on 1 March 2011. Jim uses the payments basis to account for GST. He can continue to account for the sale on a payments basis in March 2011 instead of having to account for it now at 12.5% if he were on an invoice basis.</p>

Change of use Adjustments

A GST adjustment is required for supplies when there is a change in their use.

For example: Goods and services intended originally for:

- business purposes may be used for making non-taxable supplies (that is, for exempt or private purposes). Will result in an adjustment of tax to pay.
- exempt or private purposes may be used in the registered person's business. Will result in a credit adjustment.

The adjustment for the change of use can be made in the following ways:

- One-off adjustment
- Period by period adjustment
- Annual adjustment

Our *GST Guide (IR375)* on Page 55 has further information regarding adjustments for GST.

Many registered persons make the tax adjustment after the end of the tax year as part of finalising their annual accounts and the adjustments for 2010 would therefore be made in mid-2011. In this situation, the higher GST rate may apply even when the change of use took place before 1 October 2010.

New legislation has resolved this transitional problem. To ensure the old rate applies when exempt or private supplies are used in a business, the legislation will require a registered person to identify items that changed to a business use before 1 October 2010 and to apply a rate of 12.5% to them even if the deduction is made on or after 1 October.

Similarly, when business supplies are used in a non-taxable capacity and additional tax is required to be paid as a result of the change of use, the legislation provides the registered person with the additional option of identifying items that changed to a private use before 1 October 2010 and applying a rate of 12.5% to them, even if the adjustment is made on or after 1 October 2010.

Rule	When to account / Rate / Example
<p>A GST adjustment is required for supplies when there is a change in their use.</p> <p>For example: Goods and services intended originally for:</p> <ul style="list-style-type: none"> • business purposes may be used for making non-taxable supplies (that is, for exempt or private purposes) • exempt or private purposes may be used in 	<p>The adjustment is made in the GST period when adjustment is calculated.</p> <p>The tax rate for the adjustment will be one at the time the goods were acquired or imported by the registered person ie 12.5% before 1 October and 15% on and after 1 October.</p> <p>Example Roz uses her company car originally purchased in January 2008 for personal use. She uses the car personally for only 20% of the time each month. Roz makes an annual adjustment for this use in the six monthly GST return ending 31 July.</p> <p>As the car was purchased before 1 October 2010, Roz can still use the 12.5% rate when calculating her adjustment instead</p>

<p>the registered person's business.</p>	<p>of the 15% rate.</p> <p>Example</p> <p>Milhouse uses his personal computer originally purchased on 5 October 2010 for his part time Comic book business. He uses the computer for this purpose for 40% of each month.</p> <p>Milhouse makes an annual adjustment for this use in the six monthly GST return ending 31 July.</p> <p>As the computer was purchased after 1 October 2010, Milhouse will have to use the 15% rate when calculating his adjustment.</p>
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Exempt goods and services used to make taxable supplies

Exempt supplies are goods and services which aren't subject to GST and not included in your GST return. Some exempt supplies are:

- financial services
- donated goods and services sold by non-profit bodies
- renting a dwelling for use as a private home etc

Rule	When to account / Rate / Example
<p>Time of supply occurs when those goods and services are applied.</p>	<p>The supply is accounted for in the period to the extent those exempt goods and services are so applied.</p> <p>Example</p> <p>Hamish uses a computer which is used primarily in his financial services company for another new car rental business which he has just established. Hamish will need to make an adjustment in each return period when he uses the computer for the car rental business.</p> <p>If Hamish uses the computer in September the GST rate will be 12.5%. After 1 October the adjustment will be based on the 15% rate.</p>

Goods and services acquired prior to incorporation of a company

Rule	When to account / Rate / Example
<p>Time of supply occurs in the period in which the company reimburses the person who acquired those goods and services.</p>	<p>The supply is accounted for in the period of reimbursement.</p> <p>Example</p> <p>David starts a business and decides to incorporate a company on 20 September. On anticipation of incorporation, David buys a car that will be exclusively used by the Company on 25 September for \$8000.</p>

	The Company is incorporated on 5 October and it compensates David for the value of the car. The company would account for the GST on the return, which covers the October period. The GST rate used is 15%.
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Bad debts written off and recovered

Rule	When to account / Rate / Example
<p>Time of supply occurs in the period in which the bad debt is written off or subsequently recovered.</p> <p>The rate is the one that applies to the original supply written off and subsequently recovered.</p>	<p>Example</p> <p>Colin sells Sam goods valued at \$10,000 on 2 July 2009. Sam has still not paid by 1 November 2010 and Colin decides to write off the amount as a bad debt.</p> <p>Colin uses the invoice basis to account for GST and makes an adjustment on the return covering the November 2010 period.</p> <p>The GST rate used is 12.5% as that was the rate of the original transaction.</p>

Other Transactions affected by a change in the rate of GST

Fringe benefits

Rule	Examples
You account for GST on the transaction at the time that the fringe benefit is or is deemed to be provided or granted	<p>Example</p> <p>Ads are Us Ltd account for FBT on an annual basis and supply the unlimited use of a motor vehicle to two employees. They will need to apportion the value of the benefits with GST at 12.5% till 30 September 2010 and then at 15% from 1 October to 31 March 2011.</p> <p>Example</p> <p>Ads are Us Ltd supplies three staff with a travel benefit worth \$2,100 each on 15 October 2010. The benefit would be accounted for in the FBT return which covers the October period. The GST rate that applies would be 15%.</p>

Supplier increasing price to reflect GST rate increase

For Example: Car Parking Contracts, Gym Contracts etc

Rule	Example
The GST Act allows a supplier to increase their prices to compensate for an increase in GST.	<p>David enters an agreement on 1 June 2010 to pay for monthly car parking for a set fee of \$120 GST-inclusive each month. From 1 October 2010 the GST rate of 15% will apply.</p> <p>The new monthly amount David will need to pay is \$122.67.</p>

Accommodation

The supply of residential accommodation in a dwelling is exempt from GST. However, accommodation in a hotel, motel, other commercial dwelling, hospital or residential establishment may include GST. The GST on the accommodation (domestic goods or services) is calculated in two different ways:

- four-week rule for commercial dwellings
- four-week rule for residential establishments

Rule	Examples
<p>Commercial Dwellings: GST is charged on the full value of the accommodation for first four weeks stay. After four weeks, GST is charged on 60% of the value of the accommodation.</p>	<p>Example Angus is an IT contractor assigned to a project in Auckland by his employer for one month from 1 September 2010. At the end of September the project is not finished and Angus will need to stay another two weeks. The serviced apartment hotel will charge GST on the value of the accommodation at 12.5% for the first four weeks till 30 September 2010.</p>
<p>Residential Establishments: If an agreement exists that the stay will be for longer than four weeks, GST must be charged on 60% of the value of the accommodation from the start of the stay.</p>	<p>They will then charge GST on 60% of the value of the accommodation for the final two weeks at the rate of 15% (which is an effective rate of GST of 9%).</p> <p>The hotel and Angus's employer will claim an input tax credit for GST on the return period which covers the earlier of the time an invoice is issued or the time any payment is received by the hotel.</p> <p>Example Sinead enters into an agreement with a rest home on 1 June for long-term accommodation. Sinead pays for the accommodation on a monthly basis. The rest home charges GST on 60% of the value of the accommodation, first at 12.5% until 30 September and then 15% from 1 October.</p>

What are the new apportionment rates for rest homes and long-term hospital accommodation?

There is a method of apportionment that, when expressed as a percentage, means that when the GST rate is 12.5% a rest home supply becomes effectively 10.25%.

The apportionment is:

- 45% of the supply of domestic goods and services is deemed to be for the provision of long term commercial accommodation, which in turn has GST charged on 60% of the value (or 7.5%, and from 1 October 9%).
- 55% of the supply is for non-domestic goods and services which will have GST charged on that proportion at 12.5% (15% from 1 October).

The apportionment can be simplified to an effective GST rate of 10.25%; and from 1 October that effective rate will increase to **12.3%**.

There is also a similar calculation for long-term hospital accommodation, which has the apportionment of 35/65, which translates to an effective GST rate of 10.75%. From 1 October the effective rate will be going up to **12.9%**.

For more information regarding the apportionment method please refer to the *Tax Information Bulletin Vol 6 No 2 (August 1994)*.

Entertainment Expenses

Rule	Example
<p>For the 2010-11 tax year, GST-registered persons have the option of using:</p> <ul style="list-style-type: none"> a special time of supply rule to account for entertainment expenditure incurred before 1 October 2010 at the GST rate of 12.5% in the GST return including the period 30 September 2010, or the date the registered person files their income tax return for the 2010-11 tax year at the GST rate of 15%. 	<p>Diana wants to claim entertainment expenses for the 2010-11 year. When preparing her GST return for the period ending 30 September 2010 she chooses to identify all the expenses that occurred before 1 October 2010. Diana makes an adjustment for the GST component of those entertainment expenses in her GST return that includes September 2010 at the rate of 12.5%</p> <p>Diana will have to do a second adjustment for the GST on entertainment expenses claimed after 1 October until the end of her income year. The adjustment for the GST component of these expenses will occur in the return period in which the corresponding income tax return was either filed or became due, whichever is earliest.</p> <p>Alternatively, Diana could have just made an adjustment based on a GST rate of 15% for all the expenses and included this in the GST return period which covers her corresponding income tax return due or filed date, whichever occurs earliest.</p>

Payments of deposits including to stakeholders

Rules	Examples
<p>Where a supplier receives a deposit under a contract, the general time of supply will be triggered. This applies equally to conditional or unconditional contracts. Where a deposit is paid to a person as stakeholder, there will have been no receipt by the supplier and the time of supply will not be triggered. A supplier may be a stakeholder.</p> <p>A stakeholder relationship requires agreement by all parties. A person cannot declare himself or herself a stakeholder unilaterally. A stakeholder holds the deposit on behalf of both</p>	<p>Example</p> <p>Sarah is getting married on 15 January 2012. She would like to hold her wedding function at Victoria House. She meets with the functions manager to consider their services, and they agree that the wedding will be held there on that date. No arrangements are made about the actual wedding function.</p> <p>Sarah must confirm the arrangements for her wedding within six months of the chosen date to secure the date beyond that time. She pays \$500 to Victoria House on 10 August 2010 to hold the date she wants. The cost of the wedding will be reduced by this amount if the wedding function goes ahead. The amount paid is refundable at any time up to six months before the wedding.</p> <p>In this situation, it is considered that Victoria House has received a payment from Sarah to hold her wedding there on the date booked. This is a separate supply from the wedding itself. Victoria House will have to account for output tax on the \$500 in the return covering the August 2010 period. The GST</p>

parties and owes a contractual obligation to both parties.

Where there is no binding contract or agreement, it must be shown that the payment is for the supply of goods or services, whether it occurs now or in the future. Where this is the case, the receipt of the deposit by the supplier will trigger the time of supply.

rate of 12.5% will apply to this deposit.

Example

Wilf, a property developer, enters into a conditional agreement to sell a property to Megan. Megan pays a deposit to Eagle Real Estate Ltd on 25 September 2010. Under the terms of the REINZ-ADLS agreement, the deposit is held by Eagle Real Estate Ltd as stakeholder and the stake-holding ceases when the agreement becomes unconditional or is cancelled or avoided. The agreement becomes unconditional on 10 October 2010.

Eagle Real Estate Ltd is required to hold the deposit for 10 working days from the date of receipt and as a result it does not pay the deposit to Wilf until 20 October 2010. The time of supply will be triggered on 10 October 2010 when the agreement becomes unconditional. From that point, Eagle Real Estate Ltd will be holding the deposit not as stakeholder, but as agent for Wilf.

Wilf will have to account for the GST at a rate of 15% on the full value of the transaction in the return covering the October 2010 period.

You can read more detailed information in our interpretation statement IS10/03 - GST: Time of supply - payments of deposits, including to a stakeholder.