

# AGENTS ANSWERS

Inland Revenue's tax agents' update

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## 1 October change in GST rate

Understanding the time of supply rules for the transition period is critical for customers who have supplies where GST is charged at 12.5% but not accounted for until after 1 October. After 1 October the GST rate on your GST returns will be 15%, so you may need to make adjustments to ensure supplies at the old rate are accounted for correctly.



If you or your clients are GST-registered, you'll receive a one-off GST transitional return if your return period spans the rate change. This one-off transitional return will let you account for GST at both the old and new rates.

### Time of supply

The change in GST makes it vital for all GST-registered businesses to be aware of the time of supply rules. Time of supply (ie when the supply occurs) determines if the GST on the supply should be 12.5% or 15%.

The general rule is that a supply is considered to take place at the **earlier** of either:

- the time a tax invoice is issued or received, or
- the time a payment is received by the supplier.

A supply that occurs before 1 October 2010 will have GST charged at 12.5%, while a supply that occurs on or after 1 October will have GST charged at 15%.

For more information about the time of supply rules and how they apply to certain transactions during the time of a GST rate change visit [www.ird.govt.nz/changes](http://www.ird.govt.nz/changes)

### GST rate change adjustments

When payments made or received after 1 October 2010 are accounted for on a GST return the GST will be calculated at 15%, even if the supply occurred before 1 October at the rate of 12.5%.

The GST rate change adjustment corrects the difference between a supply made at 12.5% but accounted for at 15% when paid.

Qualifying supplies are determined by your accounting basis. Any qualifying supplies that have a 12.5% GST rate but won't be accounted for until after 1 October 2010 will need a GST rate change adjustment.

If you use the ...	then your qualifying supplies are ...
payment basis	<ul style="list-style-type: none"><li>• all goods and services <b>purchased</b> and invoiced on or before 30 September but not paid for by 1 October</li><li>• all goods and services <b>sold</b> on or before 30 September but not paid for by 1 October</li></ul>
invoice basis	<ul style="list-style-type: none"><li>• only second-hand goods <b>purchased</b> from a non-GST-registered person on or before 30 September but not paid by 1 October</li></ul>
hybrid basis	<ul style="list-style-type: none"><li>• all goods and services <b>purchased</b> and invoiced on or before 30 September but not paid by 1 October</li></ul>

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Inland Revenue  
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### Welcome to Agents Answers

In this issue: 1 October change in GST rate, tips for calculating new GST rate, employer superannuation contribution tax changes, provisional tax and 2010 budget, redesigned KiwiSaver guide, losses and payment of income tax liabilities, we're contacting employers and GST registered entities about budget changes, RWT interest and prescribed investor rates changing, FBT rate change.

If you have any suggestions for topics you'd like covered in this newsletter, email [agents.answers@ird.govt.nz](mailto:agents.answers@ird.govt.nz)



## REMINDERS

### September 10 filing dates:

The following dates in most cases are guidelines only:

- 40% of clients with standard balance dates
- 37.5% of clients under E-File
- 20% of clients with late balance dates.

These dates are only a target or monitored if you're currently being monitored by your agent account manager.

**1 October 2010:** GST will increase to 15%.

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

The adjustment is only calculated on the amount of each qualifying supply that remains unpaid by 1 October 2010 and not written off as a bad debt.

You'll also need to consider your debtor and creditor lists and calculate the total amount of qualifying supplies on both lists, then subtract the amount of any debtor supplies from the amount of creditor supplies. Divide that figure by 51.75 to find your GST rate change adjustment.

If the amount of creditor qualifying supplies is greater than the amount of debtor qualifying supplies, then the GST rate change adjustment is GST payable. The GST rate change adjustment goes in Box 9 of the GST return spanning 30 September 2010.

If the amount of debtor qualifying supplies is greater than the amount of creditor qualifying supplies, then the GST rate change adjustment is a GST credit. The GST rate change adjustment goes in Box 13 of the GST return spanning 30 September 2010.

### Late claims

If you or your clients are unable to claim GST for an expense during the period it was paid (ie because you don't have a tax invoice) it can be claimed in a future period, subject to certain criteria.

You can usually only claim your GST late on expenditure incurred in the previous two years. Exceptions to this two-year rule include:

- inability to obtain tax invoice
- disputed payments for expenditure
- mistakenly treating a supply as non-taxable
- clear mistakes or simple oversights.

### Tips for calculating new GST rate

The GST component of a 12.5% GST-inclusive amount can be calculated by dividing by 9.

For the 15% rate, the GST component can be calculated by multiplying the GST-inclusive amount by the fraction 3/23.

The fraction is obtained as follows:

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

#### Example

GST on \$1380 (GST incl.) = \$1380 × 3 ÷ 23 = \$180

**Note:** You can divide by 7.66666666 instead of using the fraction 3/23 but the figure must have 8 decimal points to get the correct GST amount.

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

Normally a late claim of GST can be included in the purchases and expenses for the period in which you make the claim. However, the GST rate change means this may result in incorrect GST being claimed if GST for a supply is charged at 12.5% but isn't claimed until after 1 October 2010.

A late claim made after 1 October for 12.5% GST on a purchase or expense will be entered as "other" GST on credit adjustments in the Box 13 section of the *GST adjustments calculation sheet (IR 372)*.

The total credit adjustments in Box 13 of the calculation sheet is then entered in Box 13 of your GST return.

### Credit and debit notes

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

Credit or debit notes issued for invoices issued before 1 October 2010 will have GST calculated at 12.5% for the amended GST-inclusive price.

Those issued for invoices issued on or after 1 October 2010 will have GST calculated at the new GST rate of 15%.

When a credit or debit note is issued or received after 1 October for an invoice that was originally at 12.5%, it's important **not** to enter the difference between the tax invoice and the credit or debit note as either income or an expense on the GST return, as the GST will be calculated incorrectly.

Instead, the difference between the GST components of the original invoice and the debit or credit note should be accounted for as an "other" adjustment in either the Box 9 or Box 13 section of the *GST adjustments calculation sheet (IR 372)*.



## Employer superannuation contribution tax changes

From 1 October 2010 the rates and thresholds for employer superannuation contribution tax (ESCT) will change. If you're paying ESCT based on your employee's salary or wages plus gross employer contributions, you'll need to use the new rates and threshold amounts to determine how much tax to withhold on employer superannuation contributions. These will apply from the first pay period that ends on or after 1 October 2010.

Income range	ESCT rate
\$0-\$16,800	10.5%
\$16,801-\$57,600	17.5%
\$57,601-\$84,000	30%
\$84,001 and over	33%

The flat ESCT rate remains at 33%.

## Provisional tax and 2010 Budget

Provisional tax is calculated using the residual income tax (RIT) from the last income tax return that was filed.

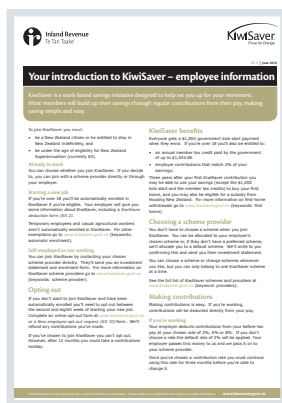
Budget 2010 tax changes have reduced provisional tax instalments due **after** 1 October 2010 for the 2010-11 tax year.

Your clients will continue to pay instalments due **before** 1 October 2010 at their current rate.

If your client uses the standard option we'll recalculate their provisional tax assessment for the 2010-11 tax year and send a report of their remaining instalment amounts. If your client uses the ratio method we'll send a letter confirming their new ratio percentage.

If you'd like to work out your client's instalments yourself, go to [www.ird.govt.nz](http://www.ird.govt.nz) (keywords: provisional tax).

## Redesigned KiwiSaver guide



We've recently redesigned *Your introduction to KiwiSaver - employee information (KS 3)* from a booklet to a new two-page factsheet.

It contains all the previous information but in a much condensed form. You'll still be sent the *New employee opt-out request (KS 10)* and *KiwiSaver deduction (KS 2)* forms with the KS 3.

**Note:** Any existing supplies you hold of the KS 3 are still valid and fine to hand out to your staff. However, when you re-order you'll receive the new version.

## Losses and payment of income tax liabilities

We've been asked whether an outstanding income tax liability of a taxpayer can be satisfied by, or written off in return for, extinguishing tax losses of the taxpayer and/or of another taxpayer.

The Income Tax Act 2007 doesn't allow an outstanding income tax liability to be satisfied by extinguishing the taxpayer's tax losses (or another taxpayer's tax losses).

Nor does the Tax Administration Act 1994 provide for the write-off of tax in return for extinguishing a taxpayer's tax losses (or another taxpayer's tax losses). If the Commissioner writes off outstanding tax for a taxpayer with net losses, section 177C(5) provides that he must divide the amount written off by 33% and reduce the tax loss by that amount. In that case extinguishing the losses is a consequence of the decision to write off the tax as opposed to the reason for it.

However, section IW 1 of the Income Tax Act 2007 provides that where a taxpayer has a tax loss and has a shortfall penalty imposed for income tax, the taxpayer may use the tax loss to pay that shortfall penalty if the requirements of section IW 1 are met.

## We're contacting employers and GST-registered entities about Budget changes

All GST-registered entities will have received a letter and handy checklist from Inland Revenue explaining what they need to do to get ready for the GST and PAYE tax changes.

Businesses also need to consider the GST transition period and the effect time of supply rules may have.

In September we'll be writing directly to all employers and those not using a payroll intermediary or tax agent will receive a copy of the new PAYE tables. This is a one-off event because of the multiple tax changes faced by employers. Our policy of making PAYE tables available on our website or on an as-needed basis will continue to apply after this event.

Updated PAYE information, tables and our online "PAYE/KiwiSaver calculator", will be available at [www.ird.govt.nz](http://www.ird.govt.nz) from mid-September. Our updated "Calculate tax on holiday pay - 2011 online calculator" will be available on 1 October 2010.

Read the latest information on the 2010 Budget at [www.ird.govt.nz/changes](http://www.ird.govt.nz/changes)

## RWT interest and prescribed investor rates changing

In the Budget 2010 round you may have noticed new tax rate changes to income from investment and savings.

RWT rates on interest and prescribed investor rates (PIRs), which apply to income from portfolio investment entities (PIEs), will be aligned with new income tax rate changes that come into effect on 1 October 2010.

You don't need to do anything to have the new rates applied. Banks, financial institutions and PIEs will change your rate automatically from 1 October.

You only need to update your rate if changes in your circumstances mean you go on to a higher or lower rate.

The new RWT rates will apply to interest payments made on or after 1 October 2010, regardless of the term over which the investment runs.

For PIE income or losses, the old rates will apply to income attributed up to 30 September 2010 and the new rates apply to income attributed to each day from 1 October 2010.

### What are the changes?

The following tables set out the changes.

RWT rates for companies			
Criteria	1 April to 30 September 2010	1 October 2010 to 31 March 2011	From 1 April 2011
No IRD number	38%	33%	33%
Default rate	33%*	33%*	28%
Elected rate	33%	33%	28%
Elected rate	38%	33%	33%

\* This rate may be 30% if offered by the interest payer.

RWT rates for individuals, trustees and Māori Authorities		
Income range	1 April to 30 September 2010	1 October 2010 onwards
\$14,000 or less	12.5%	10.5%
\$14,001–\$48,000	21%	17.5%
\$48,001–\$70,000	33%	30%
\$70,001 and over	38%	33%
No IRD number	38%	33%
Default rate for new accounts opened after 31 March 2010	38%	33%
Default rate in all other cases	21%	17.5%

### PIEs that derive interest

From 1 April 2010, PIEs that are trusts which receive interest may use any of the RWT rates for companies or trustees (other than the 12.5%/10.5% rates).

There's no change to the RWT rate deducted from dividends, which remains at 33%. Note that dividends from PIEs are not liable to RWT.

Further information on the RWT Budget changes is available in the factsheet *Budget 2010: RWT rate changes for interest recipients (IR 743)* at [www.ird.govt.nz](http://www.ird.govt.nz) (keyword: IR743). For more general information on RWT go to [www.ird.govt.nz/rwt](http://www.ird.govt.nz/rwt)

Where your rate on 30 September 2010 is ...	the PIE will change your rate to ...
12.5%	10.5%
19.5%	17.5%
21%	17.5%
30%	28%

For more information on PIEs and PIRs go to [www.ird.govt.nz/toii/](http://www.ird.govt.nz/toii/)

## FBT rate change

When calculating FBT you currently have the option of applying the alternate rate or using a single rate.

On 1 October 2010 FBT rates are changing. For quarterly filers the single rate will change from 61% to 49.25% and the alternate rate will change from 49% to 43%.

The basic rates for attributed fringe benefits from 1 April 2010 to 31 March 2011 are as follows:

Income range	FBT rate
\$0–\$12,390	12.99%
\$12,391–\$39,845	23.84%
\$39,846–\$54,915	45.99%
\$54,916 upwards	55.04%

If you're not sure about the timing of these changes or how they impact on your FBT return filing, call and talk it over with your agent account manager.