

Around the Office

Commercial Newsletter

September 2010



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15% GST – October 2010

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

The GST rate increase is consistent with the Government's commitment to a fairer tax system and a move away from personal and company tax rates that it considers harmful to economic growth. Now is the time to contemplate the various administrative changes you will need to consider.



Calculating GST

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

At the moment, with a GST rate of 12.5%, calculating the GST component of a GST inclusive price is as simple as dividing by 9. Not so simple after 1 October. From 1 October 2010, the new GST tax fraction is 15 ÷ 115 which can be simplified to 3 ÷ 23:

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

When GST increases to 15% you will need to **multiply by 3 then divide by 23**. To give you an example, let's assume the price of an item is \$1,000 plus GST, so that is \$1,150 including GST. The GST component is \$1,150 x 3 ÷ 23 = \$150.

The alternative to using the fraction 3 ÷ 23 is to divide the GST inclusive amount by 7.66666666 (23 ÷ 3), e.g. \$1,150 ÷ 7.66 = \$150.13. You need to use eight decimal places to get the correct GST amount. **The IRD recommend using the 3 ÷ 23 fraction** as this produces a more correct answer.

Return Filing

There will be minor changes to existing GST Returns for the period 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 clients 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. No other changes are being made to these Returns.

GST Transitional Returns

If your GST Return period straddles 1 October, you will need to complete a special one-off GST Return – a 'GST Transitional Return'. The new GST Transitional Return will have three parts:

- A calculation of GST at 12.5% to 30 September 2010.
- A calculation of GST at 15% from 1 October 2010.
- A combination of the above two amounts to determine if GST is payable/refundable.

The Provisional Tax calculations remain the same.

The GST Transitional Return only applies to the following clients 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

Please take careful notice of the GST Returns which you are sent and even though the Returns may be quite prescriptive, the procedure to follow for making these one off adjustments can be quite complex.

GST Rate Change Adjustment Calculation

You may need to complete a GST Rate Change Adjustment Calculation Sheet (GST 105) as part of your GST Return covering the period ended 30 September 2010.

For those on the payments basis, you will need to make an adjustment based on debtors and creditors as at 30 September. This adjustment accounts for the fact you will pay or claim GST on these supplies at 15% when they are received/paid after 1 October 2010. You will need to keep a record of those debtors and creditors included in this adjustment for future reference. If you are on the hybrid basis, you will need to make a similar adjustment, while those on invoice basis only need to make an adjustment regarding secondhand goods purchased.

IRD will send a copy of this adjustment sheet with your GST Return covering the 30 September 2010.

Other GST issues to consider...

Registration Issues

A small number of our clients are registered on a voluntary basis, which is turnover of less than \$60,000. For a few of those clients, de-registration from GST may be desirable before 1 October 2010. If you think this will apply to you, please contact us.

Contractual Issues

This area is a minefield. We will not attempt to go into detail in a newsletter! An issue you need to consider is:

- Do you have periodic supply agreements in place that span the GST rate increase? These could include rents, leases and bailments. If so, you will need to increase the GST rate to 15% and issue a new invoice.

Systems and Processes

- Maybe it is time for a complete health check of your GST systems?
- When will GST rate compliant software updates be sent to you from your suppliers and how will you test those updates to make sure the new rates calculate correctly?
- Do you have any internal excel spreadsheets or other templates where the GST rate is 'hard wired' in? If so, each of these will need a careful review.

What Next...

This publication is not intended to give you detailed and specific advice. It is more to raise your awareness of just some of the issues that surface as a result of the GST rate increase. Please contact us with any specific queries you may have.

GST & Concepts Cash Manager



Further to our comment in the June newsletter regarding clients using the Concepts Cash Manager (CCM) program, we have since been advised by CCM that they will release an update prior to 1 October 2010 which will accommodate the increase in the GST rate to 15%. In order to download this upgrade, clients must be running version 4.1. Clients who are running versions prior to version 4.1 will **not be** supported by CCM, i.e. GST will still calculate at the old rate. If you have any queries regarding this please contact our office or Concepts Cash Manager on 0800 888 080.

GST & BankLink



BankLink has released an upgrade to address the changes to GST. If you prepare your GST using BankLink you will need to make sure you install the update once it is available.

The process to upgrade for those offsite clients is as follows:

STEP 1 Open the client file and click **Other Functions, GST Set-up** BankLink Books displays the **GST Set Up** window.

STEP 2 Select the **Rates** tab.

STEP 3 In the **Effective Dates** field for **Rate 2**, enter **1/10/10**.

STEP 4 In the **Rate 2** field for each GST class, enter the new GST Rate.

ID	Class Description	GST Type	Rate 1	Rate 2	Rate 3	Control Account
1	GST Income	Income	12.5000	15.0000	0.0000	
2	GST Expenditure	Expenditure	12.5000	15.0000	0.0000	
3	Exempt	Exempt	0.0000	0.0000	0.0000	

STEP 5 Click **OK** BankLink Books saves the rates.

ACC Levy Invoices



Always check your ACC levy invoices. The invoice amount could be incorrect for any of the following reasons:

- ACC is incorrectly classifying your type of work.
- Your earned income, in total, takes you over the statutory maximum level of cover and ACC has not recognised this. This may happen if you are drawing wages with PAYE deducted and also getting a year-end non-PAYE salary from your company.
- ACC has been supplied with, or picked up, the incorrect income figure.

ACC's billing system has recently changed and we have noticed that quite a few clients, who were part-time earners for ACC purposes, have been recorded as full-time earners on the new billing system. A phone call to ACC will rectify this problem.

PAYE Changes



In line with the decrease in personal tax rates from 1 October 2010, IRD have adjusted the PAYE deduction rates for employees. Updated PAYE tables are being sent directly out to employers in mid September in hard copy form. The online tables and calculators will also be updated by 1 October with the new rates. The direct post out of the PAYE tables will be a one off as the IRD now wish all employers use the online tables from the IRD website. Payroll software will also need to be updated to cope with the PAYE changes, so please check with your software provider.

The new individual tax rates are set out in the table below:

Income Band	Tax Rate
\$0 - \$14,000	10.5%
\$14,001 - \$48,000	17.5%
\$48,001 - \$70,000	30.0%
\$70,001 +	33.0%

The company tax rate remains at 30% but will drop to 28% from the beginning of the 2012 income tax year. The trustee income tax rate remains at 33%.

Fringe Benefit Tax (FBT) Changes



From 1 October 2010 the flat rate of FBT changes from 61% to 49.25%. The alternate FBT rates for the year ending 31 March 2011 have changed in line with the composite tax rates. The alternate FBT rates will change again for the year ending 31 March 2012.

IRD Hoax Email



There are currently some hoax emails circulating which purport to be from IRD or a tax refund agency and ask you to click a link to a fake website. Do not click on any links within a suspicious email or reply to the email. Delete the email from your inbox. If in doubt, please contact us before doing anything.

Staff News



Jing Yi Chin

Jing Yi moved to Christchurch to study in 1997 from Malaysia. She graduated with a B.Com from Canterbury University in 2003 and worked at a Christchurch accounting firm until 2008 when she went on maternity leave. Jing Yi began working at Brown Glassford and Co in mid 2010. Outside of work, her husband, toddler, two dogs & two cats and being on committees keeps her very busy, any spare time after that is spent socialising and reading.