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The website dealt with your queries and comments as you prepared to move to the new rate.

The Panel considered your submissions and acted as a conduit between businesses and the Government. It monitored how businesses dealt with the changes so that the Government was aware of particular issues you may have faced in recording and charging GST at the new rate. The Panel also advised the Government on any more general concerns for particular industries, activities or types of transactions related to the GST rate increase.

The Government was keen to ensure that any changes were implemented as smoothly as possible.

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GST Advisory Panel

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While every effort is made by the GST Advisory Panel to ensure that accurate information is disseminated through this website, the GST Advisory Panel makes no representation about the content and suitability of this information for any purpose. Where there is any uncertainty, we suggest that you take advice from an experienced tax practitioner.

GST Advisory Panel

Updates

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Tuesday, August 10, 2010 - 09:45

Inland Revenue has put together checklists to help businesses prepare for the changes on 1 October 2010. To view the checklist, please click on the following link: Read more

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The GST rate change adjustment

Posted on Friday, October 1, 2010

"Businesses need to ensure they have the information needed to successfully complete GST returns over the rate transition period", said GST Advisory Panel Chair, Frank Owen today.

"We're advising all businesses registered on the payments basis, or the hybrid basis, of accounting for GST to compile a list of debtors and creditors as at 30 September," he said.
"This information will be required to complete the GST rate change adjustment sheet."
The rate change adjustment recognises that businesses will have invoices that were issued pre-1 October with 12.5% included for which payment will be made or received after 1 October when the new 15% GST rate will apply.
"A large number of businesses will make the rate change adjustment in their GST returns for the period ended 30 September which are due to be filed by 28 October" Mr Owen said. "However a number of businesses will not be required to make the adjustment until they file GST returns due at a later date". Those businesses should compile the list of debtors and creditors now so that the information is available when the return is due to be filed."
"It will make it much easier if you need to make the GST rate change adjustment in GST returns due in November and subsequent months."
"Businesses who have their GST returns filed by an accountant or a tax adviser should contact them as soon as possible to help speed up the process of filing GST returns over the transition period".
"Good records will help everyone ensure that the correct adjustment is made, and the GST return is filed on time." Mr Owen said

Frank Owen
Chair

How do I determine which GST rate to use, 12.5% or 15% over the transition period?

Posted on Monday, September 27, 2010

The correct rate of GST to be used will depend on the time of supply. If the time of supply is on 30th September or earlier, the 12.5% GST rate will apply, if the time of supply is on 1 October or later, the new 15% GST rate will apply.

How do I determine which GST rate to use, 12.5% or 15% over the transition period?

The correct rate of GST to be used will depend on the time of supply. If the time of supply is on 30th September or earlier, the 12.5% GST rate will apply, if the time of supply is on 1 October or later, the new 15% GST rate will apply.

General rule

The general time of supply rule is found in s.9(1) of the GST Act.

In general the 'time of supply' for goods and services, will be the earlier of the time of a payment, or the date an invoice is issued. This means if you issue an invoice on or before 30th September, or a payment is received on or before 30th September, the GST rate applying will be 12.5%. Note however that the payment must be in respect of "that supply" for the payment to constitute a time of supply for the supply of any goods and services. This means that you cannot prepay for goods and services you intend to acquire at some future time and hope that because payment has been made that the old GST rate will apply.

If the invoice is dated on or after 1 October and a payment in respect of the supply is not made until 1 October or later then the GST rate will be 15%. This will be the case even if the invoice is for goods or services provided before 1 October.

Some businesses invoice monthly in arrears for the services they provide. If the invoice is dated on or after 1 October GST must be applied at the 15% rate to the entire invoice, even though the services were received by the customer before 1 October.

One issue that has been raised with the GST Advisory panel is the actual date invoices are prepared [issued]. In many cases the invoice for goods and services supplied in one month are not actually prepared until early in the following month. In the past this has not created any problems as people are in effect advancing, in some cases, the date the GST is payable. A problem will occur however in respect of supplies actually made in September but billed in October even if the invoice is dated September. Technically the new GST rate, 15%, should be applied to those invoices.

The Government addressed this issue and made a legislative change that enables people to prepare the invoices for September supplies in the first 11 days of October, provided the invoice is dated on or before 30 September and is issued consistently with the registered person’s practice of issuing invoices for such supplies, and payment for the supply is due no later than 60 days from the invoice date.

Continuous supplies

The general time of supply rule as set out above in section 9(1) however is modified by the provisions in section (9)(3) of the GST Act.

In this case where goods are supplied under an agreement to hire, or where services are supplied under any agreement which provides for periodic payments, they shall be deemed to be successively supplied for successive parts of the period of the agreement, and each of the successive supplies shall be deemed to take place when a payment becomes due or is received, whichever is the earlier.

It is important to note that the issue of an invoice does not trigger the time of supply for agreements to hire, or for services provided over a period of time with periodic payments.

The rule in s.(9)(3)(a) as set out above varies from the general time of supply rule by providing that where services are successively supplied, then each such successive supply shall be deemed to take place when any payment becomes due or is received, which ever is the earlier.

This recognises that where services are supplied over time, and are paid by way of instalments, it is more appropriate to recognise the time of supply for GST purposes as the earlier of the date when each payment is either due, it is paid.

This can raise problems. Take a telecommunications company for example. In most cases these companies will bill for calls made, (a service provided by the company), and a line rental fee, (a charge for a successive supply of access to the company's telephone lines).

In this example there are s.9(1) supplies, the toll calls, where the time of supply is effectively the date of the invoice for those tolls. There is also, however, a section 9(3)(a) supply, that is the agreement to access the company's lines, for which a monthly rental is charged in advance by the telecommunications company. The time of supply for this is, effectively, the date the rental charge is due for payment.

Needless to say the two "times of supply" on the one account will not always be the same. To address this problem many companies in this type of situation have taken a pragmatic approach, and treated the date of the issue of the invoice as the time of supply, even though this may have advanced the date of payment of the GST in respect of the S.(9((3) supplies.

This is fine until there is a GST rate change. Take a September 2010 telephone account; the toll calls were made last month (August). The time of supply is the date of the invoice, say 30th September, GST is payable at the rate of 12.5%, the line charge however is due and payable next month (October) so the GST rate here is at 15%. This is just too hard. As a consequence the Government has agreed to a modification of the law for the GST transition.

Suppliers, who arguably may be subject to section 9(3) on at least some of their supplies, have been allowed the option referred to earlier as treating the supply as being made on the date of the invoice provided they meet the requirements of that option.

Example
Jims Hire Service agrees to hire a truck to Highway Deliveries. The lease is for four months from 1 September 2010, to 30 December 2010.

If the transaction is invoiced prior to 1 October 2010, (say 1st September) and is payable, in full, on or before a date 60 days after the invoice date, (the 30th of October) the GST will be at 12.5%,

If the agreement provides that payments will be made on the first day of each month in advance, that is 1st September, 1st October, 1st November, and 1st December, the GST on the first payment 1st September 2010 would be at 12.5% and the following months would be at 15%, unless, Highway Deliveries actually paid the following months instalments prior to 1 October 2010.

The successive supply rule covers for example everything from the hire of a truck to an insurance premium. In broad terms the time of supply is the earlier of the time at which each successive payment falls due or is paid. In some cases such as a contract of insurance for a twelve month period, the premiums may be paid annually, three monthly, or monthly. A strict application of the provisions in section (9)(3)(a) would mean that the Insurance company would be required to increase the rate of GST in respect of all instalments due and paid after 1 October 2010. This clearly would have had significant compliance costs for both the insurance company and the customer often when only small amounts of extra GST is payable.

To address this issue the GST Advisory Panel suggested that the Government make a legislative change to avoid this situation. The change provides:-

A grand-parenting option for s 9(3)(s) successive supply contracts in place before 1 October 2010 where the consideration for a supply is set or reviewed with a maximum period of 396 days, under which GST would be payable at 12.5% for the remaining part of the contract provided:

- All remaining GST for the period is accounted for by the supplier in the return period that includes 30 September 2010;

- GST-registered customers can only claim back GST at 12.5% and are notified of this by their insurer within 30 days of the GST rate change.

This measure will remove the substantial compliance costs for most health and general insurance providers of having to adjust the GST by amounts that are exceeded by the cost of contacting the customer to change the amount of the payment. It would also ensure that customers who paid on an instalment basis were not disadvantaged by having taken up this option rather than the option of paying annually in one lump sum. It should be noted however that the insurance customer is only allowed to claim back the GST at the 12.5% rate.

There are further time of supply rules regarding successive supplies in S.9(3)(aa). Where goods are supplied progressively or periodically pursuant to any agreement and the agreement provides for the consideration for that supply to be paid in instalments or periodically in relation to the periodic or progressive supply of those goods, those goods shall be deemed to be successively supplied, and each such successive supply shall be deemed to take place whenever any payment in respect of any supply becomes due, is received, or any invoice relating only to that payment is issued, whichever is the earlier.

Where goods and services are supplied directly in the construction, major reconstruction, manufacture, or extension of a building or an engineering work, and are supplied pursuant to any agreement which provides for the consideration for that supply to become due and payable in instalments or periodically in relation to the progressive nature of that construction, manufacture, or extension, those goods and services shall be deemed to be successively supplied, and each such successive supply shall be deemed to take place whenever any payment in respect of any supply becomes due, is received, or any invoice relating only to that payment is issued, whichever is the earlier.

GST Advisory Panel

Advisory Panel welcomes proposed legislative changes

Posted on Tuesday, August 10, 2010

The GST Advisory Panel welcomes the government's announcement today to enact recommendations made by the Panel that will, for many businesses, deal with a range of difficulties arising in the transition to the 15% GST rate.

The recommendations follow substantial consultation with us by many businesses up and down the country who highlighted the substantial compliance costs in some cases of making systems and other changes where contracts involving periodic supplies span the 1 October date, gaps between today's business practices and legislation that is now more than 20 years old and other issues of simple inconsistency or unfairness.

The detail of the measures released today should give businesses a reasonable level of comfort that the worst of the concerns submitted to the Panel will be addressed. I would strongly urge the government to ensure that the legislation is enacted as speedily as possible before the 1 October date.

Draft legislation is now available for consultation with Inland Revenue officials up until 16 August and can be obtained by calling the Minister of Revenue's office on (04) 817 9728 or Inland Revenue on (04) 890 6386.

The consultation process has highlighted the need for an overhaul of the GST time of supply rules to bring them into line with business practicalities. I am pleased that the government has listened to the panel on this issue as well and has agreed to a future review of this area.

Details of the changes are contained on this site. Read the special report here.

Frank Owen
GST Advisory Panel (Chair)

Further proposed changes to the GST Act 1985 to help businesses transition to the new GST rate

Posted on Tuesday, August 10, 2010

The Government has announced that it intends to include a number of amendments to the Goods and Services Act 1985 by way of a supplementary order paper to the Taxation (Annual Rates, Trans-Tasman Savings Portability, KiwiSaver, and Remedial Matters) Bill. The Government has also released a draft of the legislative amendments for public comment (available on request from Inland Revenue (04 890 6386) and the Minister of Revenue's office (04 817 9728). Feedback on that draft is sought by 16 August 2010. This paper provides background and further explanation on the changes.

Annual contracts involving successive supplies

Many contracts, particularly in the general and health insurance area, are for a period of one year or are at least reviewed annually. In some cases the customer pays the premium in one payment while in other cases the premiums are paid progressively, say by monthly instalment. Most of these arrangements will straddle the GST rate change date of 1 October 2010 so that, in the absence of legislative change, some instalments will be at the new GST rate and some at the old.

Businesses may be able to seek additional payment from customers to cover the additional GST, but in many cases the compliance cost to them of doing so is excessive relative to the amounts of GST involved. For example, there will be individual cases when the additional costs of collecting the additional GST exceed the additional GST because the contract has very little time to run.

The proposed amendment would allow insurers and others the option of applying the 12.5% rate for the rest of the insured period up to the next annual review date (or less if the contract is for a lesser period) provided certain criteria are satisfied. The key criteria are that all the remaining GST is accounted for in the return period ending before 1 October 2010 and GST-registered recipients only claim back GST at the 12.5% rate. This would be achieved by treating the remaining supplies to have been made on 30 September 2010.

In the event that an insurance policy or other contract subject to the transitional rule is cancelled and, therefore the supply is not fully provided, businesses would need to issue credit notes to adjust for the change in consideration and the GST incorrectly paid.

A business would elect this option by making a tax return on this basis.

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 the remaining GST at 12.5% in its September GST return.

Subrogation payments

A subrogation payment is the recovery income received by an insurer for the damages caused by a third party to their insured party. The GST Act deems the time of supply 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%.

The proposed change would allow the rate of GST to remain at 12.5% for subrogation payments received on or after 1 October 2010 provided the underlying claims are agreed and settled before 1 October 2010.

Finance leases

In agreements to hire that are finance leases, GST is applied to the supply of the good in question (a motor vehicle, for example) but not to the finance component of the transaction as financial services are GST-exempt. In finance leases the interest and principal components are calculated actuarially but to ease compliance GST payments are able to be based on a straight-line approach over the term of the lease. This means that more GST is payable on the earlier lease payments than is actually required. A square-up adjustment is normally only done when the lease terminates, to reflect any difference between the actual and expected residual value of the leased asset.

With a rate change occurring during the contract term, the new rate would apply to the remaining payments under the finance lease contract. The subsequent reconciliation that would have to be undertaken on these existing contracts becomes complex and substantial systems changes would be required to accommodate it. Most contracts are with GST-registered businesses who would be able to claim back the GST anyway.

The proposed change would allow finance leases entered into before 1 October 2010 for a maximum term of five years to continue to be able to be accounted for at the 12.5% rate, provided GST-registered lessees were advised by the lessors to deduct input tax at the 12.5% rate on payments made after 1 October 2010. This solution would be elective, at the option of the supplier.

Aligning legislation and practice

There are several instances where further legislative flexibility is needed so that GST practices adopted through systems or other commercial imperatives are not unduly affected by the rate increase.

The issuing of tax invoices for pre-October supplies

The first issue relates to goods or services that are supplied on or before 30 September 2010 but for which the invoice is not issued until early October even though dated before 1 October 2010. Under the GST Act, it is the date when the invoice is issued that is relevant for determining the time of the supply, so these invoices could technically be considered subject to the higher rate even though the goods or services are provided, and the invoice dated, when the rate was 12.5%.

Accordingly, for the GST rate transition, the proposal is that suppliers may treat tax invoices issued on or before 11 October 2010 for goods or services provided on or before 30 September 2010 as having been issued on the date of the invoice. This is provided that the invoice is dated on or before 30 September and payment is due no later than 60 days from the invoice date. A cut-off date of 11 October has been chosen to provide two weekends to send out invoices in relation to September supplies.

Option of general time of supply or successive supplies rule

The second instance arises because some suppliers of what are arguably successive supplies (for example, utilities and phone line rentals) account for GST on the basis of when the invoice is issued rather than when payment is due or received. Technically, the GST rate on a successive supply should be determined by when the payment is due or received rather than when the invoice is issued. Under normal circumstances this makes no difference but 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.

To address this, it is proposed that for successive supplies, suppliers have the choice of using either the invoice or the "payment due or received" rule provided, as with the previous issue, that the goods or services are provided before 1 October 2010, the invoice for the supply is dated on or before 30 September 2010, the invoice is issued by 11 October 2010 and payment is due not later than 60 days from the invoice date.

Replacement invoices

The third issue concerns the use of replacement tax invoices. Legally, a supplier cannot issue two tax invoices for the same supply and should be instead issuing credit or debit notes when, for example, goods are returned or additional GST is due as a result of the GST rate increase. Although longer-term this issue needs to be considered in a wider review, in the interim the proposal is that for the GST rate transition period:

- As an alternative to issuing a debit note, replacement tax invoices could be issued to replace pre-1 October 2010 invoices for supplies that are being provided successively, to cover the amended GST payable on the remaining services provided from 1 October.

• Since in some cases a replacement invoice would alter the time of supply and hence the applicable GST rate, there would be an option of allowing the issue of a new invoice at the previous GST rate of 12.5% if it relates to revising an invoice issued before 1 October 2010, as an alternative to issuing a credit note.

Layby sales

For GST purposes, a layby sale is only recognised as taking place when the goods are delivered, which is normally after the last instalment payment. Goods uplifted after 30 September will, therefore, attract the new 15% GST rate. Although paying all of the lay-by instalments and collecting the layby item before 1 October would preserve the old 12.5% GST rate, this will not always be possible because of the costs involved or the goods simply not being able to be delivered before that date.

An amendment is proposed for layby sales contracts that span the GST rate change date and for which a binding contract was in place before Budget night (20 May 2010). The proposal would allow 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 would be required to return these payments in their September 2010 GST return as there would be a deemed supply to the extent of these payments.

This would be in effect an apportionment rule, with payments made from 1 October 2010 being at 15%.

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.

Accordingly, it is proposed to allow registered private training establishments the option of making an up-front adjustment in their 30 September GST returns that would give them a credit to cover the additional GST that would be payable when course fees held in trust as at 30 September 2010 were subsequently released to them. This would apply irrespective of whether the PTE returned GST on an invoice, hybrid or payments basis.

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

Application date

These changes would apply from Royal assent.

1 October business checklist

Posted on Tuesday, August 10, 2010

Inland Revenue has put together checklists to help businesses prepare for the changes on 1 October 2010. To view the checklist, please click on the following link:

Attachment	Size
1-oct-business-checklist.pdf	753.77 KB

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The website dealt with your queries and comments as you prepared to move to the new rate.

The Panel considered your submissions and acted as a conduit between businesses and the Government. It monitored how businesses dealt with the changes so that the Government was aware of particular issues you may have faced in recording and charging GST at the new rate. The Panel also advised the Government on any more general concerns for particular industries, activities or types of transactions related to the GST rate increase.

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GST Advisory Panel

Frequently Asked Questions

There are no special rules regarding the time to account for GST and which rate to use when there is a change in the rate of GST.

The general time of supply rule applies for most transactions when there is a rate change. 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. To determine which period to account for the GST depends on what accounting basis a person or business uses, for example:

- Persons/businesses on an invoice basis claim GST when they receive an invoice and account for GST when they issue an invoice or receive any payment in respect of that supply, whichever comes first.
- Persons/businesses on a payments basis account for GST or claim GST on any payments received or made during a taxable period.
- Persons/businesses on a hybrid basis account for GST on supplies they make using the invoice basis and claim GST on supplies they have received, using the payments basis.

Although the general time of supply rule applies for the majority of transactions, the GST Act provides special time of supply rules for some specific transactions. These are listed in the table below.

Circumstance	Details of circumstance	Section
Supply to an associated person		9(2)(a)
Periodic or progressive supplies	Supply of goods under an agreement to hire (but not including a Hire Purchase Agreement)	9(3)(a)
	Supply of services under an enactment or agreement that provides for periodic payments	9(3)(a)
	Progressive or periodic supply of goods under an enactment or agreement that provides for instalment or periodic payments	9(3)(aa)(i)
	Supply of goods and services in a construction or engineering project that provides for instalment or periodic payments	9(3)(aa)(ii)
	Hire Purchase Agreements	9(3)(b)
Special sales	Door to door sales	9(2)(b)
	Layby sales	9(2)(c)

	Sales where price is not determined at the time of delivery	9(6)
Betting and gambling	Racing betting or sports betting conducted by TAB	9(2)(d)
	Gambling under the Gambling Act 2003, other than a New Zealand lottery or gambling on a gaming machine	9(2)(e)
	Coin/token operated machines	9(2)(f)
	Gambling in a casino venue	9(2)(g)
Supplies made in exchange for a token, stamp or voucher		9(2A) and (2B)
Public and local authorities	Supplies by public authorities	9(7)
	Local Authority Rates	9(8)
Loyalty programmes		9(9)

The following examples are provided by the GST Advisory Panel on the basis of issues that have been raised with the Panel:

1 The insurance company gets a input tax deduction at the old 12.5% rate (section 20(3)(d))

Issue	Answer
Payments by instalments: I have entered into a contract with a building company to build our new family home. The first three instalments have been paid to the building company so that there is the last instalment (of $28,000) to be paid at completion on or about 25 October 2010, plus the retentions (of $5000) in January 2011. Will the total cost of $220,000 be increased because of the GST rate increase?	The new GST rate of 15 percent will apply to the October 2010 instalment and the retentions. The building company is entitled to increase the price only in relation to the instalments (and retentions) that are payable after 1 October 2010. If the building company increases the price, the new payments would be: Last instalment: 28,622.22 Retention: 5,111.11 This is likely to still be the case even where the building contract may have been for a "fixed price". Generally, section 78(2) of the GST Act allows suppliers to increase their prices to take account of an increase in the rate of GST - unless the contract expressly provides that such an increase cannot happen.
Stamps, Tokens, or Vouchers.	The usual time of supply rule means that a supplier should treat stamps, tokens or vouchers as a supply for GST purposes at the time a customer purchases them, not when the vouchers are redeemed. Example: Peter buys a $50 voucher from Musikco 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. The supply takes place when Peter buys the voucher and Musikco accounts for the sale at a GST

	rate of 12.5% in the return which covers the September period. When Jonathan redeems the voucher, there is no underlying supply at this stage and the goods should be supplied free of GST (s 5(11F)). However, there are circumstances where the issuer of the voucher and the supplier of the goods or services may agree to recognise the supply on redemption of the voucher. Example: Musikco stores nationwide, which are independently owned but affiliated, agree that a supply takes place when a store reimburses another store for redeeming a voucher, rather than when the voucher is sold. In this case, Music Time in the above example would account for the sale at the GST rate of 15% in the GST return that covers the November period.
Insurance claims: Claim payments received by a registered person from an Insurance Company under a contract of insurance are a taxable supply. What rate of GST is payable for claims made prior to 1 October but received after 1 October?	Time of supply is the day on which the payment is received from the insurance company. GST output tax is accounted for in the period of receipt of payment. Example: Kevin, a registered person who operates a plumbing business, has tools stolen from his garage. Two months after the burglary on 15 October 2010 Kevin receives a payment from his insurance company in respect of his claim for the theft. GST is accounted for in the return which covers the October period at the new rate of 15%.
Professional services: I am a solicitor who charges my clients for my legal services every two months. If I have done work for a client in September 2010 and send an invoice in October 2010, can I use the 12.5 percent GST rate?	No - all invoices issued on or after 1 October 2010 are required to have the 15 percent GST rate. The solution to this is to ensure all invoices for services provided in September are issued in September.
Hire Purchase Agreements	Time of supply occurs at the time the agreement is entered into. All hire purchase sales should be included in the taxable period covering the date the hire purchase agreement is entered into, regardless of the accounting basis is used. Example: Walter Wall sells a carpet on hire purchase to Homer Ohner on 7 June. The cash price is $550, which includes GST. The agreement is for 36 monthly payments of $23, totalling $828. Walter accounts for the sale on the cash price of the goods of $550 in the GST period covering 7 June. Homer also claims GST input tax credits for his purchase on the cash price of the goods ($550) in the period covering 7 June. The difference of $278 is the finance charge, which is an exempt supply.
Registered person on a payments basis: I am a registered person and use the payments basis of accounting for GST. I understand that I have to pay GST at 15% on any payments I receive on or after 1 October 2010 and that I will also claim an input tax adjustment of 15% on any payments I make after that date. I also understand an adjustment is required to ensure supplies charged at the old rates are accounted for at those rates. Would you please explain the adjustments I will need to make on 30 September 2010.	The adjustment will mean that all income received after 1 October will be accounted for at the new rate even though you may have charged for that work at the old (12.5%) rate. However, you will also be allowed an input tax deduction based on the new rate, even though you may have only been charged 12.5% GST. You will need to calculate the transitional adjustment on a special GST transitional adjustment form, which Inland Revenue will provide you. The calculation requires you to calculate the value of your debtors and creditors on 30 September 2010. You then deduct the value of your debtors from your creditors and divide the difference by 51.75 (which is the difference between the old and new rates of GST). If your debtors exceed your creditors, a GST credit will arise that can be used to offset GST payable. When your creditors exceed your debtors, GST is payable and is included in your GST return for the period covering 30 September 2010.

	The calculation means that you will not have to continue to account for the income for work you have charged or expenses you have incurred at the old rate after 1 October 2010 when the new GST rate applies. NOTE: if you are using the hybrid method of accounting for GST you will need to check the definition of "qualifying supplies".
Second hand goods: I am a registered person and use the invoice basis of accounting for GST. I purchased land for $350,000 from a person who is not registered on 15 September and I still owe $150,000 as at 30 September 2010. How do I claim the second-hand goods input tax deduction?	You will need to make a similar adjustment to that set out above. You will make an adjustment on the unpaid portion (i.e. $150,000 / 51.75 = $2,898.55). This figure goes in the GST return for the period ended 30 September 2010. When you pay the $150,000 you will be able to claim an input tax deduction of 3/23rds of the amount paid.
Goods supplied under an agreement to hire that provides for periodic payment	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. Persons on the invoice basis account for the supply in full in the period in which the earlier of these events occurs. Payments basis customers account for tax at the rate applying when payment is received or made. Example: Anna hired a piece of machinery from Mark on 1 June for six months. Mark advises that they will require monthly payments due on 1stth of each month. GST of 12.5% will apply to payments made in July, August and September. GST of 15% will apply on payments due on 1 October and 1 November. If Anna decides to pay the monthly payments that would be due in October and November early - before 30 September, then GST of 12.5% will apply to those early payments. Mark will need to include those early payments in the GST return covering the period in which the early payment was made by Anna.
Local Authority Rates: Super City issue rates notices to their ratepayers in July each year. The rates notice gives ratepayers the option of making a payment for the full amount of the rates on the first instalment date - 20th October, or ratepayers can choose to make payment in four instalments for each quarter ending September 2010 (due 20th October), December 2010 (due 20th January), March 2011 (due 20th April) and June 2011 (due 20th July). The instalment notices for the quarter ended 30 September 2010 are issued on 24th September. Payment will be due 20th October 2010. Super City has asked whether the GST on that instalment should include GST at 12.5%, or 15%.	The time of supply for rates is on the earlier of: • the date of an instalment notice is issued; or • the due date for payment, or • the date when payment is received. As the instalment notice is issued before 1 October 2010, the GST will be at 12.5%. The instalment notices issued for the ensuing quarters will include GST at 15%. However, those residents who choose to pay the full amount of their rates in the first quarter (i.e. they do not choose the instalment option) will pay GST at 12.5%.
Periodic supplies: On 1 July 2010 Matt signs an agreement to lease a car park from Parking Co. The agreement requires Matt to pay a fee of $120 each month (inclusive of GST), payable on 20th of each month. A tax invoice was provided to Matt at the time he signed the agreement. The tax invoice requires Matt to pay a fee of $120 per	Each monthly payment is a separate supply. The time of supply is the time each payment becomes due or is received, which ever is the earlier. Here, that would be the 20th of each month. The GST Act also allows a supplier to increase their price to provide for the increase in the rate of GST. In Matt’s case Parking Co may increase the monthly payments to $122.66 to reflect the increase in the GST rate.

month (inclusive of GST), payable on the 20th of each month.	Similar outcomes would apply to commercial leases and other similar commercial arrangements. For example, a monthly fee for the use of an electronic database, or a gym membership.
A plumber has asked what rate of GST should be charged on invoices issued prior to 1 October 2010, but for which payment will not be received until after 1 October.	All invoices issued prior to 1 October 2010 should have GST included at 12.5% - even if you do not expect to be paid until after that date. If you account for GST using the payments basis you will need to have record of outstanding debtors and creditors as at 30 September 2010. You will make an adjustment so that you will not have to keep a track of income and expenses at different rates of GST. After 1 October you will pay GST at 15% for all payments received, and will also be able to claim GST at 15% on expenses paid after that date. Information about how to make the necessary adjustment will be sent to you by Inland Revenue prior to 1 October.
The plumber also asked what rate of GST should be shown on work which was quoted using 12.5% GST, but will not be completed and charged until after 1 October.	Section 78(2) of the GST Act states that contracts or agreements entered into prior to a change in the rate of GST may be altered to take account of the rate change, unless the contract expressly provides that this provision is not to apply. This will mean that, unless the contract or agreement provides otherwise, even though a job may have been quoted at 12.5% GST, any work invoiced after the date of the rate change can be charged at the new GST rate.
A retailer has asked what rate of GST should be used on a credit note issued for goods that had been purchased before 30 September 2010, but returned after 1 October 2010.	The initial supply would have been made using a GST rate of 12.5%. Therefore, the credit note should use that same rate, or the customer will be refunded for more than they had paid for the goods. Normally a credit note would be included in Box 11 of the GST return. However, as the amount of GST is not the [new] standard rate, the GST portion only of the credit note should be included as an adjustment to input tax and included with the adjustments at box 13. Example: A fashion store sells a dress for $270 on 29 September. The sale is included in the return for the period ended 30 September. On 3 October the dress is returned and a credit is issued. As the credit note will be made using the old rate of GST (12.5%), the GST portion of the credit note (1/9th of $270 = $30) is included in Box 13 of the store's GST return for the next GST period.
A hotel is providing facilities for a large conference to be held on November 2010. They will be invoicing their client in July, even though the conference will be in November, and have asked what rate of GST should apply.	Even though the invoice relates to a service that will be provided after 1 October 2010, the time of supply rule will be triggered at the time the invoice is issued (or any payment is received by the hotel). In this case, because the invoice will be issued before 30 September, the GST rate the hotel should include will be 12.5%. The hotel will include the supply in their GST return covering July 2010.
New tax fraction: What is the new tax fraction and how will it be calculated?	The new tax fraction (the tax rate divided by the sum of 100 plus the tax rate) will be 3/23. This fraction can be applied to the price of goods or services to see how much GST is included in the price. For example, if the cost of a fridge is $2,000 inclusive of GST, the GST included in the price will be $260.87. ($2,000 x 3) divided by 23 This will mean that 3/23 of all supplies made at the new rate will represent GST payable to the Inland Revenue, and 3/23rds of all supplies received by a registered person will represent GST that can be claimed back by the supplier. Payments basis and hybrid basis taxpayers The GST Act will require everyone on the payments or hybrid basis of

accounting for GST to pay 3/23rds of all payments received in respect of taxable supplies after 30th September to the Inland Revenue Department as GST. Conversely they will be able to claim back 3/23rds of all payments made for taxable supplies after 30th September as input tax.

In some cases those supplies will have been made and invoiced before 30th September so will include GST at 12.5%. The will mean that in those cases more GST will be paid after 30th September than was invoiced, and more GST will be claimed back after 30th September than was charged.

This is compensated by a special adjustment required in the GST return which includes the 30th of September.

Example

Home town Plumbers Ltd have $13,500 owing to them on 30 September 2010. This was made up of sales $12,000 plus GST of $1,500.

They also owe $9,000 on the same date. This was made up of purchases $8,000 plus GST of $1,000.

When the company collects the $13,500 on say 15th October thy will account for GST at the new tax fraction of 3/23rds, or $1,760.87. They will pay $260.87 more GST than the company has collected.

When the company pays its creditors the $9,000, in say October, they will claim GST at the new tax fraction rate, 3/23rds, and will claim back $1,173.91. This is $173.91 more than the company paid.

The purpose of the special adjustment form is to compensate for this difference.

In Hometown Plumbers Ltd case thy will be in the following position:

More GST paid than charged	$260.87
Less more GST claimed than paid	$173.91
Net GST overpaid	$86.96

This amount is claimed back as an adjustment in the return submitted on 30th September 2010.

Adjustment in the GST return which includes the 30th of September.

There will be a special adjustment form [GST 105] provided by the Inland Revenue Department to make the adjustment described above.

The form will require persons registered on the payments basis to provide the following information

Creditors at 30 September	$___ BOX A
Debtors at 30 September	$___ BOX B
Subtract BOX B from BOX A	$___ BOX C
Divide BOX C by 51.75	$___ BOX D

If the amount in BOX A is larger than in BOX B the amount in BOX D represents GST payable in the return form for the period which includes 30th September. This figure is placed in 9 or 9A of your GST return.

	If the amount in BOX B is larger than in BOX A the amount in BOX D represents GST which can be claimed back in the return form for the period which includes 30th September. This figure is placed in 13 or 13A of your GST return. Example using Hometown Plumbers Ltd figures above. Creditors at 30 September — $13,500 BOX A Debtors at 30 September — $9,000 BOX B Subtract BOX B from BOX A — $4,500 BOX C Divide BOX C by 51.75 — $86.96 BOX D The $86.96 is now entered in Box 13 or 13A of the GST return which includes 30th September. It will reduce the GST otherwise payable in that quarter by the amount of the adjustment.
What do I do if I am on the payments basis of accounting for GST but have not managed to get details of all my creditors owing on 30the September before I am due to file my GST return on 28th October 2010.	Where possible you should make every effort to obtain details. Where you are not able to do this, you can take advantage of a provision in the GST Act which allows you to make an adjustment in a subsequent return where the amount of GST involved is less than $500. This means that if the creditors you are unable to get details of by 28th October do not exceed $25,875 you can make the adjustment, $500, in the next GST return. This would be preferable to filing a late return due to the creditors not being available. Issues where GST returns straddle the GST rate change date The GST is payable with a return furnished monthly, two monthly, or six monthly. The design of the GST Return Form is based on taking the tax fraction of goods and services received or provided and hence arriving at the net GST payable or receivable. Where a taxpayer is accounting for GST on the invoice basis, and has a GST return period ending on 30th September 2010, there will be no problems. The returns will be based on the dates of the invoices received or issued. Where the return straddles 1 October it will not be possible to do a "conventional GST return" using two rates. Therefore a special return will be required on 30th September 2010. Copies of the special return form will automatically be sent to affected taxpayers
Trading over midnight on 30 September: My business will be operating on midnight of 30 September, when the new rate takes effect and I will be making supplies both immediately before and immediately after midnight. How do I account for the new rate?	It is accepted that in practice it will be difficult to identify the precise point when sales should be returned at the new GST rate in the above circumstances. However, similar issues will arise for this group of taxpayers at the end of each GST reporting period, as businesses who trade on a 24/7 basis, or who make supplies at midnight on the last day of any GST reporting period need to have a notional cut-off time. The cut-off time delineates when sales for one period cease and sales begin to be made for the next period. Inland Revenue have advised that businesses should follow the same process they normally use to determine which GST return a sale around the end of one GST period is made in. For example, Jim is registered for GST on the payments' basis. He operates a bar that trades past midnight every night. It would be assumed that when Jim does his banking on Friday 1 October, the amount that he banks would relate to the sales that his bar made before 1 October.

Private Training Establishments (PTE): As a registered PTE, my students' course fees are required to be paid into a trust. As the course progresses, the trust progressively releases these course fees to my PTE. Does the 15 percent GST rate apply to the amounts that are released by the trust to my PTE after 1 October 2010?	Yes, the 15% GST rate applies to these amounts. However, the transitional provisions give registered PTEs the option of making an up-front adjustment in their 30 September GST returns, based on the amount held in trust for the PTE as at 30 September 2010. This would apply irrespective of whether the PTE returned GST on an invoice, hybrid or payments basis. The adjustment would give them a credit to cover the additional GST that would be payable when course fees held in trust as at 30 September 2010 are subsequently released to them. To establish the amount of the adjustment the fees held in trust on 30th September should be divided by 51.75. The resulting figure should be entered on the GST Return, which includes the 30th of September, as a credit in box 13 or 13A of the GST return.
Laybys: If I put an item on layby, what is the amount of GST I have to pay on the purchase?	Generally speaking for laybys, the amount of GST you pay on the purchase depends on when you and take ownership of the item regardless of when the final payment is made. . For example, if you make your final payment and pick up the goods, at a later date, the GST rate applicable is normally the rate applying on the date the goods are uplifted. Therefore if the goods are collected;- • on or before 30 September 2010 you'll be charged GST at 12.5%. • on or after 1 October 2010 you'll be charged GST at 15%. There are, however, transitional rules for layby sales arrangements made before Budget day (20th May 2010).
Layby sales - transitional rule: How do the new lay-by sales transitional provisions apply?	Example: A customer enters into an agreement to lay-by a TV for Christmas 2010 on 10 April 2010 with TVco (supplier). The customer pays TVco an amount every fortnight until he picks up the TV on 15 December. As a supplier, TVco can elect to pay for all payments they have received from the customer up to and including 30 September to be at the 12.5% GST rate and include this total figure in their sales for the return period covering September. TVco will need to issue an invoice for the total of these payments. The rest of the payments received after 1 October will be subject to GST at 15%, when the goods are delivered. TVco would include the total of the rest of the payments in the return covering December 2010 at 15%. The supplier will need to issue an invoice for the total of these payments.
What is the new composite rate for rest homes and private hospitals?:	In 1986 Inland Revenue reached agreement with bodies that represent rest homes and private hospitals on a standard apportionment rate of domestic and non-domestic goods and services for rest homes and for private hospitals. Those rates were: • For rest homes - 45% domestic / 55% non-domestic; and • For private hospitals 35% domestic / 65% non-domestic. Based on these agreements and a GST rate of 15% for non-domestic goods and services and a 9% rate for domestic goods and services: • The new composite rate for rest homes is 12.3% (previously 10.25%); and • The new composite rate for private hospitals is 12.9% (previously 10.75%).

Bookings made before 1 October 2010: What is the rate of GST for a family holiday in November 2010, which I booked for in 20 August 2010?	If you booked and paid for the holiday in full before 1 October, GST at 12.5% would apply. That is, you would pay 12.5% GST on the purchase of trip, and the supplier would account for GST at the corresponding 12.5% rate. If a booking is made, and a deposit has been paid, on a quoted price of 12.5% GST before 1 October 2010, GST would be payable at 12.5% if the supplier actually receives the deposit before 1 October 2010. If there was only a booking made before 1 October, the issuing of an invoice may trigger the time of supply, and GST at 12.5%. In any case, the nature of each individual agreement is important and each agreement will need to be closely examined in light of its own contractual terms.
Reissuing of tax invoices after 1 October: I issue a tax invoice on 25 September 2010 with an incorrect name on it. This error is discovered on 13 October. If I reissue a replacement invoice after 1 October, will I have to charge GST at 15% on that supply?	The legislation that has been enacted to provide certainty on various transitional issues applies in these circumstances (see new section 78AA(13) of the GST Act). Provided the original incorrect invoice is cancelled by issuing a credit note that complies with the requirements of section 25 of the GST Act and a replacement invoice is issued to the correct recipient, the replacement invoice can account for GST at the 12.5% rate.
Insurance receipts: What happens if my insurance company makes a payment to me that I do not receive until after 1 October?	When a GST registered party receives an insurance payout from their insurer in relation to a loss incurred in the course or furtherance of their taxable activity, they are required to pay GST on that payment. A deemed supply arises on the day the registered person receives the payment. (section 5(13)) A payment may be made by the insurer in late September 2010 but not received by the insured party until October 2010. This would mean that the recipient has to pay GST at the rate of 15% on the payment, but because the payment by the insurer may only factor in GST at the old rate of 12.5%1, the overall payment may not fully cover the loss. An amendment provides some leeway for payments in the pipeline (see section 78AA(14)). 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 registered person receives the payment on or before 11 October 2010. The old 12.5% rate of GST therefore applies to the payment in these circumstances. A simple way for people on the payments basis or the hybrids basis to deal with this situation is to treat the payment paid in September but received in October, as a debtor as part of the adjustment required in the GST return which includes the 30th of September.
Finance leases: What finance leases are covered by the transitional arrangements?	In agreements to hire that are finance leases, GST is applied to the supply of the good in question (a motor vehicle, for example) but not to the finance component of the transaction as financial services are GST-exempt. In such leases the interest and principal components may be in effect calculated actuarially but, to ease compliance, GST payments are able to be based on a straight-line approach over the term of the lease. This means that more GST is payable on the earlier lease payments than is actually required. A square-up adjustment is normally only done when the lease terminates, to reflect any difference between the actual and expected residual value of the leased asset. With a rate change occurring during the contract term, and in the absence of the

	transitional provision, the new rate would apply to the remaining (monthly) payments under the contract. The transitional provision allows certain finance leases entered into before 1 October 2010 for a maximum term of five years to continue to be able to be accounted for at the 12.5% rate, if the lessor so elects. The lessor electing this option, is required to advise GST-registered lessees to deduct input tax at the 12.5% rate on payments made after 1 October 2010. Only leases where under the agreement part of the (monthly) payment is consideration for a supply that is the provision of credit under a credit contract, and that amount decreases for each successive payment, qualify for the option.
Transitional legislation: Where do I find the legislation that enacts the transitional provisions for the GST rate change?	The relevant legislation was the Taxation (Annual Rates, Trans-Tasman Savings Portability, KiwiSaver, and Remedial Matters) Act 2010, recently passed by Parliament. The legislation can be found in the: Taxation (Annual Rates, Trans-Tasman Savings Portability, KiwiSaver, and Remedial Matters) Act 2010 (PDF, 1.86MB, 104 pages) The transitional provisions are sections 193 (which inserts a new section 78AA of the Goods and Services Tax Act 1985), section 194 (which amends section 78B of the GST Act) and section 174 (which inserts a new section 183AA(4)(c) of the Tax Administration Act 1994). Further background information on these changes is on this website under "Further proposed changes to the GST Act 1985 to help businesses transition to the new GST rate"

GST Advisory Panel

Panel members

The GST Advisory Panel has been established to help businesses and the Government implement the GST rate increase. The Panel will consider submissions and will monitor how businesses are dealing with changes so that the Government is aware of particular issues businesses may face in recording and charging GST at the new rate.

Frank Owen (Chair)

Frank Owen is a retired chartered accountant. He is a former Chairman of KPMG New Zealand's National Tax Practice, and a former member of the New Zealand Institute of Chartered Accountants' National Tax Committee. He was previously owner and Managing Director of TEO Training Ltd which undertook large GST training programmes in both New Zealand and Australia.

David McLay

David McLay has practised as a tax barrister since 2003, following 17 years as tax partner with Bell Gully, and is a prominent tax lawyer with considerable experience in most areas of tax law and tax litigation. He is Chairman of the (Income Tax) Rewrite Advisory Panel.

Craig Macalister

Craig Macalister has been Tax Director of the New Zealand Institute of Chartered Accountants since 2005. He was previously KPMG's National Tax Director. Prior to joining KPMG, he worked at Inland Revenue, principally in the Department's Policy Advice Division as a Senior Tax Policy Analyst.

Phil O'Reilly

Phil O'Reilly is Chief Executive of Business New Zealand. He has a background in business, advocacy and communications in enterprises in New Zealand and Australia.

Karen Radford

Karen Radford is a Director of the New Zealand Retailers' Association, Radford and Company Limited - a private investment company, and Development Director at Queen Margaret College, Wellington. She has extensive experience in the retail sector and was previously Managing Director of Radfords Limited a chain of furniture and appliance stores in the Lower North Island. Prior to joining Radfords she worked in the Treasury as a Policy Analyst in the Energy, Tax and Finance divisions. During this time she was seconded to the International Energy Agency in Paris.

- Terms of reference
- Privacy policy
- Disclaimer

GST Advisory Panel

Terms of reference

The Terms of Reference for the GST Advisory Panel are:

- To establish a dedicated website and 0800 number to receive queries and comments from businesses concerning the new rate.
- To monitor whether businesses have the systems capability/are able to access the capability or have any other issues that would cause difficulties in meeting the 1 October 2010 deadline for recording and charging GST at the correct rate and to report to the Minister of Revenue about any significant difficulties.
- To provide a link to Inland Revenue's information concerning the transition into the new rate and, wherever appropriate, forward questions or comments to Inland Revenue for response.
- To provide advice to government on any more general concerns, particularly those relating to particular industries, activities or transaction types.
- To disseminate advice via the website relating to any common themes or issues from queries and comments received.

GST Advisory Panel

Privacy policy

Official Information Act 1982

Submissions may be the subject of a request under the Official Information Act 1982, which may result in their publication. The withholding of particular submissions on the grounds of privacy, or for any other reason, will be determined in accordance with that Act. Those making a submission who consider there is any part of it that should properly be withheld under the Act should clearly indicate this.

GST Advisory Panel

Updates

Transactions that could affect GST registered businesses

Monday, July 19, 2010 - 14:25

There are no special rules regarding the time to account for GST and which rate to use when there is a change in the rate of GST. The general time of supply rule applies for most transactions when there is a rate change. 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. To determine which period to account for the GST depends on what accounting basis a person or business uses, for example: Read more

GST Advisory Panel meets

Monday, June 21, 2010 - 16:34

The GST Advisory Panel had its first meeting on Thursday, 17 June to consider transitional issues that businesses are facing in relation to the GST rate increase. The Panel is already aware of a number of questions and concerns that businesses have. Most of the issues concern the time of supply rules and the impact the increase in GST will have on various supplies that straddle 1 October 2010. Read more

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- Panel members
- Terms of reference
- Privacy policy
- Disclaimer

For more info on government services go to newzealand.govt.nz

Registered for GST? On

1 OCTOBER

GST will increase to 15%

Use this checklist to make sure you're ready for the change

- [ ] I have updated my accounting software, and my accounting staff know what to do

- [ ] I'm ready to issue tax invoices with the new GST rate of 15% from 1 October

- [ ] My accounts payable system can process tax invoices at both the 12.5% and 15% rates

  You may receive invoices at both the old and new rate of GST for some time after 1 October.

- [ ] I can issue credit and debit notes at both the new and old rates

  The GST rate on credit and debit notes needs to reflect the original invoice.

- [ ] I'm no longer in business, but I'm still registered for GST

  If you de-register for GST before 1 October, you'll pay 12.5% GST on assets you have sold or kept that were used in your business. If you de-register on or after 1 October, you'll be required to pay 15% GST.

Inland Revenue
Te Tari Taake

www.ird.govt.nz/changes

AD60 JULY 2010

Employ staff or provide fringe benefits? On

1 OCTOBER

personal income tax rates are changing

Use this checklist to make sure you're ready for the change

- [ ] I use a payroll software package
  - [ ] My payroll software has been updated with the new PAYE rates

- [ ] I make KiwiSaver or other superannuation contributions for employees

  Employer superannuation contribution tax rates are also changing from 1 October

  - [ ] I have viewed the new rates on Inland Revenue's website

- [ ] I provide fringe benefits

  Fringe benefit tax rates are also changing from 1 October

  - [ ] I have viewed the new rates on Inland Revenue's website

Inland Revenue
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www.ird.govt.nz/changes

GST Advisory Panel

Updates

The GST rate change adjustment

Friday, October 1, 2010 - 14:01

"Businesses need to ensure they have the information needed to successfully complete GST returns over the rate transition period", said GST Advisory Panel Chair, Frank Owen today. Read more

How do I determine which GST rate to use, 12.5% or 15% over the transition period?

Monday, September 27, 2010 - 16:16

The correct rate of GST to be used will depend on the time of supply. If the time of supply is on 30th September or earlier, the 12.5% GST rate will apply, if the time of supply is on 1 October or later, the new 15% GST rate will apply. Read more

Advisory Panel welcomes proposed legislative changes

Tuesday, August 10, 2010 - 10:11

The GST Advisory Panel welcomes the government's announcement today to enact recommendations made by the Panel that will, for many businesses, deal with a range of difficulties arising in the transition to the 15% GST rate. Read more

Further proposed changes to the GST Act 1985 to help businesses transition to the new GST rate

Tuesday, August 10, 2010 - 09:49

The Government has announced that it intends to include a number of amendments to the Goods and Services Act 1985 by way of a supplementary order paper to the Taxation (Annual Rates, Trans-Tasman Savings Portability, KiwiSaver, and Remedial Matters) Bill. The Government has also released a draft of the legislative amendments for public comment (available on request from Inland Revenue (04 890 6386) and the Minister of Revenue's office (04 817 9728). Feedback on that draft is sought by 16 August 2010. This paper provides background and further explanation on the changes. Read more

1 October business checklist

Tuesday, August 10, 2010 - 09:45

Inland Revenue has put together checklists to help businesses prepare for the changes on 1 October 2010. To view the checklist, please click on the following link: Read more

1 2 next › last »

Transactions that could affect GST registered businesses

Posted on Monday, July 19, 2010

There are no special rules regarding the time to account for GST and which rate to use when there is a change in the rate of GST.

The general time of supply rule applies for most transactions when there is a rate change. 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. To determine which period to account for the GST depends on what accounting basis a person or business uses, for example:

- Persons/businesses on an invoice basis claim GST when they receive an invoice and account for GST when they issue an invoice or receive any payment in respect of that supply, whichever comes first.
- Persons/businesses on a payments basis account for GST or claim GST on any payments received or made during a taxable period.
- Persons/businesses on a hybrid basis account for GST on supplies they make using the invoice basis and claim GST on supplies they have received, using the payments basis.

Although the general time of supply rule applies for the majority of transactions, the GST Act provides special time of supply rules for some specific transactions. These are listed in the table below.

Circumstance	Details of circumstance	Section
Supply to an associated person		9(2)(a)
Periodic or progressive supplies	Supply of goods under an agreement to hire (but not including a Hire Purchase Agreement)	9(3)(a)
	Supply of services under an enactment or agreement that provides for periodic payments	9(3)(a)
	Progressive or periodic supply of goods under an enactment or agreement that provides for instalment or periodic payments	9(3)(aa)(i)
	Supply of goods and services in a construction or engineering project that provides for instalment or periodic payments	9(3)(aa)(ii)
	Hire Purchase Agreements	9(3)(b)
Special sales	Door to door sales	9(2)(b)

	Layby sales	9(2)(c)
	Sales where price is not determined at the time of delivery	9(6)
Betting and gambling	Racing betting or sports betting conducted by TAB	9(2)(d)
	Gambling under the Gambling Act 2003, other than a New Zealand lottery or gambling on a gaming machine	9(2)(e)
	Coin/token operated machines	9(2)(f)
	Gambling in a casino venue	9(2)(g)
Supplies made in exchange for a token, stamp or voucher		9(2A) and (2B)
Public and local authorities	Supplies by public authorities	9(7)
	Local Authority Rates	9(8)
Loyalty programmes		9(9)

The following examples are provided by the GST Advisory Panel on the basis of issues that have been raised with the Panel:

Issue	Answer
A plumber has asked what rate of GST should be charged on invoices issued prior to 1 October 2010, but for which payment will not be received until after 1 October.	All invoices issued prior to 1 October 2010 should have GST included at 12.5% - even if you do not expect to be paid until after that date. If you account for GST using the payments basis you will need to have record of outstanding debtors and creditors as at 30 September 2010. You will make an adjustment so that you will not have to keep a track of income and expenses at different rates of GST. After 1 October you will pay GST at 15% for all payments received, and will also be able to claim GST at 15% on expenses paid after that date. Information about how to make the necessary adjustment will be sent to you by Inland Revenue prior to 1 October.
The Plumber also asked what rate of GST should be shown on work which was quoted using 12.5% GST, but will not be completed and charged until after 1 October.	Section 78(2) of the GST Act states that contracts or agreements entered into prior to a change in the rate of GST may be altered to take account of the rate change, unless the contract expressly provides that this provision is not to apply. This will mean that, unless the contract or agreement provides otherwise, even though a job may have been quoted at 12.5% GST, any work invoiced after the date of the rate change can be charged at the new GST rate.
A retailer has asked what rate of GST should be used on a credit note issued for goods that had	The initial supply would have been made using a GST rate of 12.5%. Therefore, the credit note should use that same rate, or the customer will be

been purchased before 30 September 2010, but returned after 1 October 2010.	refunded for more than they had paid for the goods. Normally a credit note would be included in Box 11 of the GST return. However, as the amount of GST is not the [new] standard rate, the GST portion only of the credit note should be included as an adjustment to input tax and included with the adjustments at box 13. Example: A fashion store sells a dress for $270 on 29 September. The sale is included in the return for the period ended 30 September. On 3 October the dress is returned and a credit is issued. As the credit note will be made using the old rate of GST (12.5%), the GST portion of the credit note (1/9th of $270 = $30) is included in Box 13 of the store's GST return for the next GST period.
A taxpayer who has a dairy that opens until 11:00pm asks how to account for GST on sales made on the evening of 30 September. Generally the taxpayer prepares the GST return from bank statements – accounting for output tax at the time the money is deposited into the bank account. However, trading for the period after banking on 30 September will be deposited on 1 October. The taxpayer is concerned that GST will need to paid at 15% even though it related to sales made when the GST rate was still 12.5%.	It may be reasonably common practice to use bank statements to prepare GST returns and to account for cash sales using the date that the money for those sales is deposited into a bank account. However, the time of supply for those cash sales is the time the money was received - that is the time that payment was made. Taxpayers will need to take note of what deposits relate to sales made on or before 30 September and which deposits relate to sales made after that date. Cash sales made on or before 30 September will be liable to GST at the old rate of 12.5%, even if the money is not deposited until after that date. In this case the taxpayer will need to include those sales in their GST return for the period ending 30 September and will pay GST output tax at 12.5%.
A hotel is providing facilities for a large conference to be held on November 2010. They will be invoicing their client in July, even though the conference will be in November, and have asked what rate of GST should apply.	Even though the invoice relates to a service that will be provided after 1 October 2010, the time of supply rule will be triggered at the time the invoice is issued (or any payment is received by the hotel). In this case, because the invoice will be issued before 30 September, the GST rate the hotel should include will be 12.5%. The hotel will include the supply in their GST return covering July 2010.
Payments by instalments: I have entered into a contract with a building company to build our new family home. The first three instalments have been paid to the building company so that there is the last instalment (of $28,000) to be paid at completion on or about 25 October 2010, plus the retentions (of $5000) in January 2011. Will the total cost of $220,000 be increased because of the GST rate increase?	The new GST rate of 15 percent will apply to the October 2010 instalment and the retentions. The building company is entitled to increase the price only in relation to the instalments (and retentions) that are payable after 1 October 2010. If the building company increases the price, the new payments would be: Last instalment: 28,622.22 Retention: 5,111.11 This is likely to still be the case even where the building contract may have been for a "fixed price". Generally, section 78(2) of the GST Act allows suppliers to increase their prices to take account of an increase in the rate of GST - unless the contract expressly provides that such an increase cannot happen.
Stamps, Tokens, or Vouchers.	The usual time of supply rule means that a supplier should treat stamps, tokens or vouchers as a supply for GST purposes at the time a customer purchases them, not when the vouchers are redeemed. Example: Peter buys a $50 voucher from Musikco 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. The supply takes place when Peter buys the voucher and Musikco accounts for the sale at a GST rate of 12.5% in the return which covers the September period. When

	Jonathan redeems the voucher, there is no underlying supply at this stage and the goods should be supplied free of GST (s 5(11F)). However, there are circumstances where the issuer of the voucher and the supplier of the goods or services may agree to recognise the supply on redemption of the voucher. Example: Musikco stores nationwide, which are independently owned but affiliated, agree that a supply takes place when a store reimburses another store for redeeming a voucher, rather than when the voucher is sold. In this case, Music Time in the above example would account for the sale at the GST rate of 15% in the GST return that covers the November period.
Insurance claims: Claim payments received by a registered person from an Insurance Company under a contract of insurance are a taxable supply. What rate of GST is payable for claims made prior to 1 October but received after 1 October?	Time of supply is the day on which the payment is received from the insurance company. GST output tax is accounted for in the period of receipt of payment. Example: Kevin, a registered person who operates a plumbing business, has tools stolen from his garage. Two months after the burglary on 15 October 2010 Kevin receives a payment from his insurance company in respect of his claim for the theft. GST is accounted for in the return which covers the October period at the new rate of 15%.
Professional services: I am a solicitor who charges my clients for my legal services every two months. If I have done work for a client in September 2010 and send an invoice in October 2010, can I use the 12.5 percent GST rate?	No - all invoices issued on or after 1 October 2010 are required to have the 15 percent GST rate. The solution to this is to ensure all invoices for services provided in September are issued in September.
Hire Purchase Agreements	Time of supply occurs at the time the agreement is entered into. All hire purchase sales should be included in the taxable period covering the date the hire purchase agreement is entered into, regardless of the accounting basis is used. Example: Walter Wall sells a carpet on hire purchase to Homer Ohner on 7 June. The cash price is $550, which includes GST. The agreement is for 36 monthly payments of $23, totalling $828. Walter accounts for the sale on the cash price of the goods of $550 in the GST period covering 7 June. Homer also claims GST input tax credits for his purchase on the cash price of the goods ($550) in the period covering 7 June. The difference of $278 is the finance charge, which is an exempt supply.
Registered person on a payments basis: I am a registered person and use the payments basis of accounting for GST. I understand that I have to pay GST at 15% on any payments I receive on or after 1 October 2010 and that I will also claim an input tax adjustment of 15% on any payments I make after that date. I also understand an adjustment is required to ensure supplies charged at the old rates are accounted for at those rates. Would you please explain the adjustments I will need to make on 30 September 2010.	The adjustment will mean that all income received after 1 October will be accounted for at the new rate even though you may have charged for that work at the old (12.5%) rate. However, you will also be allowed an input tax deduction based on the new rate, even though you may have only been charged 12.5% GST. You will need to calculate the transitional adjustment on a special GST transitional adjustment form, which Inland Revenue will provide you. The calculation requires you to calculate the value of your debtors and creditors on 30 September 2010. You then deduct the value of your debtors from your creditors and multiply the difference by 0.019324 (which is the difference between the old and new rates of GST). If your debtors exceed your creditors, a GST credit will arise that can be used to offset GST payable. When your creditors exceed your debtors, GST is payable and is included in your GST return for the period covering 30 September 2010.

	The calculation means that you will not have to continue to account for the income for work you have charged or expenses you have incurred at the old rate after 1 October 2010 when the new GST rate applies. NOTE: if you are using the hybrid method of accounting for GST you will need to check the definition of "qualifying supplies".
Second hand goods: I am a registered person and use the invoice basis of accounting for GST. I purchased land for $350,000 from a person who is not registered on 15 September and I still owe $150,000 as at 30 September 2010. How do I claim the second-hand goods input tax deduction?	You will need to make a similar adjustment to that set out above. You would include the nominal GST on the unpaid portion (i.e. 1/9th of $150,000 = $16,666.66 x 0.019324 = $322.06. This figure goes in the GST return for the period ended 30 September 2010. When you pay the $150,000 you will be able to claim an input tax deduction of 3/23rds of the amount paid.
Goods supplied under an agreement to hire that provides for periodic payment	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. Persons on the invoice basis account for the supply in full in the period in which the earlier of these events occurs. Payments basis customers account for tax at the rate applying when payment is received or made. Example: Anna hired a piece of machinery from Mark on 1 June for six months. Mark advises that they will require monthly payments due on 1stth of each month. GST of 12.5% will apply to payments made in July, August and September. GST of 15% will apply on payments due on 1 October and 1 November. If Anna decides to pay the monthly payments that would be due in October and November early - before 30 September, then GST of 12.5% will apply to those early payments. Mark will need to include those early payments in the GST return covering the period in which the early payment was made by Anna.
Local Authority Rates: Super City issue rates notices to their ratepayers in July each year. The rates notice gives ratepayers the option of making a payment for the full amount of the rates on the first instalment date - 20th October, or ratepayers can choose to make payment in four instalments for each quarter ending September 2010 (due 20th October), December 2010 (due 20th January), March 2011 (due 20th April) and June 2011 (due 20th July). The instalment notices for the quarter ended 30 September 2010 are issued on 24th September. Payment will be due 20th October 2010. Super City has asked whether the GST on that instalment should include GST at 12.5%, or 15%.	The time of supply for rates is on the earlier of: • the date of an instalment notice is issued; or • the due date for payment, or • the date when payment is received. As the instalment notice is issued before 1 October 2010, the GST will be at 12.5%. The instalment notices issued for the ensuing quarters will include GST at 15%. However, those residents who choose to pay the full amount of their rates in the first quarter (i.e. they do not choose the instalment option) will pay GST at 12.5%.
Periodic supplies: On 1 July 2010 Matt signs an agreement to lease a car park from Parking Co. The agreement requires Matt to pay a fee of $120 each month (inclusive of GST), payable on 20th of each month. A tax invoice was provided to Matt at the time he signed the agreement. The tax invoice requires Matt to pay a fee of $120 per month	Each monthly payment is a separate supply. The time of supply is the time each payment becomes due or is received, which ever is the earlier. Here, that would be the 20th of each month. The GST Act also allows a supplier to increase their price to provide for the increase in the rate of GST. In Matt's case Parking Co may increase the monthly payments to $122.66 to reflect the increase in the GST rate.

(inclusive of GST), payable on the 20th of each month.	Similar outcomes would apply to commercial leases and other similar commercial arrangements. For example, a monthly fee for the use of an electronic database, or a gym membership.

- Panel members
- Terms of reference
- Privacy policy
- Disclaimer

GST Advisory Panel meets

Posted on Monday, June 21, 2010

The GST Advisory Panel had its first meeting on Thursday, 17 June to consider transitional issues that businesses are facing in relation to the GST rate increase. The Panel is already aware of a number of questions and concerns that businesses have. Most of the issues concern the time of supply rules and the impact the increase in GST will have on various supplies that straddle 1 October 2010.

Issues discussed at the meeting included:

The Panel will continue to consider issues as they arise, and will provide comment on this site on a regular basis.

- Contracts that the span the GST introduction date of 1 October.
  An important issue is the "time of supply" of goods and services as the time of supply will determine if the appropriate GST rate is 12.5% or 15%. This is particularly important when goods or services are supplied during a period that includes the GST rate change date. This for example includes insurance contracts where the invoice for the insurance is issued prior to the date of the GST change, but payments are made monthly over a twelve month period.
- Contracts that span 1 October 2010 also include contracts for the sale and purchase of land which become unconditional prior to 1 October 2010, [the rate change date], but which are settled on or after 1 October.
- Similar issues in respect of both operating and financing leases that are entered into prior to the GST change date, but which continue after 1 October 2010, for example motor vehicle leases.
- Industry-specific transitional issues including tourism products. There are potential issues where tourism packages have been sold overseas prior to the GST introduction date but the tourists do not arrive in New Zealanduntil after the introduction of the 15% rate.
- The panel is aware of the difficulties for Local Authorities whose rates year runs from 1 July 2010 to 30 June 2011. Issues arise in respect of the correct GST treatment when the period includes a change in the GST rate.
- The panel is also aware that some issues will arise for businesses in ensuring their systems are updated for the rate increase.
- There are also concerns being raised about the filing of GST returns where an organisation's GST return date is not on 30 September. This will involve the return for that period being partially at the old rate, and partially at the new rate.

The Panel will continue to consider issues as they arise, and will provide comment on this site on a regular basis.