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NEWSLETTER GST AND PAYE SPECIAL

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GST checklist

PAYE changes

This newsletter covers the imminent changes to GST from 12.5% to 15% and the changes in the PAYE rates.

Should you have any queries in relation to matters discussed please do not hesitate to contact the team. John Weston



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GST CHECKLIST

- Can you increase the price charged to customers to cover an increase in the GST rate.

For clients that provide goods or services to GST registered parties the main point is to increase the rate charged to 15%. So for services this will normally be expressed at a figure plus GST at 15%.

Old price

\$1,000 plus GST at 12.5% = \$1,125.00

New Price

ie \$1000 plus GST at 15% = \$1,150.00

For clients that provide goods there must be an increase in the GST inclusive price that you charge, or you will be losing 2.5% of your margin (excl GST).

Example

Old price \$1,000 including GST, will need to charge \$22.21 extra to cover the change

So in this example I would suspect that many parties will increase the price to say \$1,125 even though this is higher than the extra GST you will have to pass on to the Inland Revenue Department.

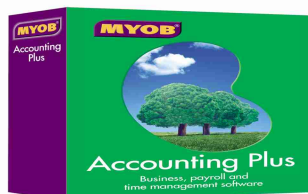
For parties that make supplies to parties who are not GST registered, (final consumers of goods or services), it may not be as easy to pass on the extra amount, as there may be a generally expected price for a good.

For example a \$2.00 shop is not likely to increase its prices to more than \$2.00 for its goods.

- Can my accounting system handle the change in the GST Rate?

For those of you who use their own in house accounting programme the first step is to contact your software provider.

- MYOB product users



We have been advised that if you purchased your MYOB product after the 15th of July, the upgrade of your software will be free.

For parties who are paying the MYOB annual support fees, the upgrade to the software will be covered by this charge.

If you have recently purchased your MYOB product, but before the 15th of July we would advise you to phone MYOB to discuss your situation. We have been told that you can pay the difference between the annual support fees and the price of their standard product. This will be cheaper than paying a full upgrade fee.

The procedure is to:

- 1 Go the MYOB website
2. Click on " NZ GSTchanges 2010" (under heading of "Business)
3. Click on "upgrade or buy software".
4. Enter the serial number of your software
5. The website will advise you if you need to upgrade your software.
6. If you need to upgrade phone MYOB on 080060-69-62 to discuss what is involved
7. Once the software upgrade is paid for you will be able to download the new software.

It is possible to change the standard rate on MYOB products to 15%, but we have been advised by MYOB that this could affect historical data and some reports may not work correctly.

The change in software will also be essential for those that use MYOB to set prices of goods as the

new MYOB product will have a wizard to help you update prices.

So in essence you will have to upgrade the software.

Excel Users – own developed work sheets

For clients that prepare their GST returns off their own developed excel spreadsheets you will need to increase the rates to 15% from the 1st of October, in the excel cells.

To calculate the GST on a GST inclusive figure you will need to take the gross figure and multiply by 3 and divide by 23.

So for example the GST on \$1,000 which was previously $\$1000/9 = \$ 111.11$, will now be $\$1,000 \times 3/23 = \130.43 .

Excel users – using our developed work sheets

If you are using a spreadsheet that was provided by this office, please contact us and we will provide to you a new spreadsheet to use with the correct rate in the cells.

There will be a small administration charge of \$20.00 plus GST for this service.

What if I bill clients monthly for work completed in September, in October

For services that are provided in September the Inland Revenue Department has allowed to the 1st of October for those services to be charged at the old rate.

So if you need to bill for work that is for September we suggest that you bill this promptly after the end of the month.

If you bill a client after the 1st of October, although the service was provided in September you will have to increase the GST rate to 15% on the bill.

Do you complete your own GST Return and you are registered on a payments basis

To cope with the change in the GST rate the Inland Revenue Department requires that all payments or receipts after the 1st of October 2010 have GST returned at a rate of 15% (regardless of what the original invoice says).

To deal with this an adjustment is required in the September 2010 GST return that you file as follows:

There will be a GST adjustment form supplied to you with the GST Return forms.

Calculate your Accounts Receivable (debtors) at 30/9/10 (money owed to you at that date- may be nil)

Calculate your Accounts payable (creditors) at 30/9/10 (money you owe at that date)

Divide the two figures by 51.75 to get the adjustment required. Here is an example:

Accounts Receivable	\$1,000
Accounts payable (only those items that include GST)	\$ 825
Difference	\$ 175

Divide this figure $\$175.00/51.75 = \3.38 This will be the adjustment in your GST return

As our accounts receivable are higher than accounts payable this is a credit and you will have less GST to pay in the September GST return.

You will have more GST to pay (\$3.38) in the next GST Return as all receipts and payments will be recorded at 15%.

WE HAVE ATTACHED A SEPARATE SHEET WITH SOME EXAMPLES.

Please contact us if you require assistance with this, but please note that this will be chargeable time.

Do you complete your own GST Return and you are registered on an invoice basis

For those of you on an invoice basis the treatment of receipts and payments may differ depending on how you calculate your GST each period.

- Full accounting system on invoice basis

If you have an accounting system that calculates the GST when invoiced, the GST returns will not require further adjustments for the period to 30/9/10 and the periods thereafter, as each period will be calculated at the right rate.

- System of recording receipts and payments and adjusting for Accounts receivable and Payable

If you use a system of recording receipts and payments each period and then adjusting for accounts receivable and accounts payable at period end, you will need to break receipts and payments received after 30/9/10 into the different rates of 12.5% or 15%.

So in this case you would have to code each transaction line by line to correctly calculate your GST.

We suggest that smaller clients should be registered on a payments basis.

What GST rate applies to transactions spanning the 1st of October 2010.

The GST rate to use is based on the "time of supply". Generally this is the earlier of an invoice being issued or any payment received.

For recurring or successive transactions ie rent payments, a special rule states that the GST timing is when payment is due or received, rather than when an invoice is issued.

So if you wish to reduce the GST that you pay on these types of transactions you may wish to make payment earlier.

This would however only be a timing difference as it just means that you will have less GST to claim when you file your GST return.

Are there any transitional rules that you should be aware of?

The Inland Revenue department have allowed some transitional rules to apply to assist taxpayers with the transition:

- They have confirmed that a GST inclusive price can be grossed up. ie if you have billed including GST, this can be changed to allow for the change in GST rate

- The remission of "use of money Interest" and late filing penalties if a GST error arises as a result of the change, up to the 31st of December 2010. You will still have to show that you took reasonable care in dealing with a transaction.

Can prices be increased to reflect the change in the GST Rate?

The GST Act gives businesses some rights to gross up prices to account for the new GST rate.

The right to increase the price applies to all existing agreements and those entered into before the 1st of January 2011 (ie within 3 months of the rate increase).

This right does not apply if the contract specifically precludes an increase, or other legal constraints apply.

It is best to communicate any price change before the 1st of October to avoid uncertainty.

If your GST return period straddles the GST rate change date of the 1st of October.

For example - your GST period is six monthly to 31 December 2010

You will receive a one off transitional GST Return and there are two parts to the return.

Part one will be at the rate of 12.5% and part two will be at the rate of 15%.

The two parts are then combined to calculate your GST to pay.

You will need to separate any goods or services you have purchased and sold before and after the rate change and record these in the correct part of the GST return.

Factoring the GST increase into your pricing strategy

Do you absorb the GST increase?

Given the current tight trading conditions a number of businesses are likely to decide to absorb the GST increase rather than risk losing business.

This is very likely where customers are extremely price sensitive.

Pricing below psychological price points.

Businesses need to be aware of price break points when determining a price to sell their product or service.

For example a product may sell for \$17.50 plus GST = \$19.70. This keeps the cost of the item below the psychological barrier of \$20.00.

Customers are more likely to purchase if they perceive an item to be cheaper, despite only a small difference in outlay.

With the GST increase the new price should be \$20.10.

The decision is required to:

- Leave the price as is and absorb the additional GST cost
- Increase the price to \$19.95 in effect passing on some of the GST increase and absorbing the balance
- Increase the price in excess of GST to just below the next break point of \$21.00 or even say \$24.95.

Businesses will need to compare strategies with their competitors before making a decision.

Use of loss leaders

Some clients may need to determine what products could be used as loss leaders to attract customers.

So for the loss leaders you may decide to not change the pricing to attract customers, but increase other products that are normally less price sensitive.

A common retailer that uses this method is super markets.

MANAGING PAYROLL COSTS AND ADMINISTRATION

As you will be aware PAYE rates are changing on the 1st of October 2010.

- MYOB and other software packages

For clients using MYOB, or other software products you should contact them by phone to see if you qualify for an upgrade of your software to reflect the new rates.

- Using Smart Payroll

For many clients we are referring them to a payroll service that does this for you, at a surprisingly reasonable cost. If you have only a few employees this may be more cost effective than using purchased Payroll software and doing it yourself

This system also has the advantage that all PAYE forms are completed by the service, so you will be never late with the returns, (as long as you remember to press the button).

We even use this service ourselves and we are accountants!

We suggest that you go to smartpayroll.co.nz and have a look.

Please contact us should we be able to assist further with this.

