

GST 2010 12.5% ► 15%

Perriam & Partners Limited Chartered Accountants & Business Advisors

The speculation is over...

The rate of GST will be increased from 12.5% to 15% as of 1 October 2010.

The GST rate increase is consistent with Government's commitment to a fairer tax system and a move away from personal and company tax rates that it considers harmful to economic growth.

Over the next three months (and beyond) we'll be working hard to guide our clients through the various changes that need to be implemented as a result of the GST rate increase, some of them complex.

As always, taxation changes do present opportunities along with the usual challenges, so now is the time to consider those opportunities along with the raft of administrative changes you'll need to consider.



New Tax Fraction

At the moment, with a GST rate of 12.5%, calculating the GST component of a GST inclusive price is as simple as dividing by 9.

Not so simple after 1 October. When GST increases to 15% you'll need to multiply by 3 then divide by 23.

For example: Let's assume the price of an item is \$1,150 including GST.

The GST component is \$150 – GST exclusive price is \$1,000.00

1. Marketing & Sales

Some clients may experience a spike in sales prior to 1 October. This was the case for many businesses back in 1989 in advance of the GST rate increasing from 10% to 12.5%. Conversely, demand may subsequently dip past 1 October.

Businesses need to plan how they can maximise their sales between now and October, possibly even by invoicing customers in advance to accelerate the time of supply so that the 12.5% rate applies rather than the 15% rate.

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2. Pricing

How will you deal with the GST rate increase as part of your overall sales and pricing strategy? Will you pass on all of the GST increase, or will you fully or partially absorb the GST?

Yet again, will you take this opportunity to increase your price?

At the end of the day your pricing and therefore sales strategy will depend on the composition of your customers (are they GST registered or are they end users who cannot reclaim GST?), demand for your goods and services, not to mention your competitors' reactions to the same issues.

You'll need to update all of your marketing and sales collateral and that includes any web pages.

And here's one of the big issues for retailers – you'll need a plan for updating shelf and catalogue prices on 1 October 2010.



3. Contractual Issues

Just some of the issues you need to consider include:

- Do your customer contracts enable you to pass on the GST?
- Do you have periodic supply agreements in place that span the GST rate increase?
- What about goods on lay-by? You'll be up for GST at 15% on any balances from customers owing at 1 October
- Do you collect a deposit as part of your trade terms? If so, you may want to increase the deposit rate to avoid a negative cashflow impact.



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4. Systems and Processes

- Maybe it's time for a complete health check of your GST systems!
- Can your accounting software issue tax invoices, debit and credit rates at both old and new rates?
- What changes will be required to POS and till technology?
- When will GST rate compliant software updates be sent to you from your suppliers and how will you test those updates to make sure the new rates calculate correctly?
- Do you have any internal excel spreadsheets or other templates where the GST rate is 'hard wired' in? If so, each of these will need a careful review.



5. Computerised Accounting Software

- **MYOB:**
MYOB have indicated that those clients who are currently on their monthly support plan will receive the software upgrades free of charge as part of their ongoing support plan. For those clients who are running an older version of MYOB software and are not on the monthly support plan, MYOB has not confirmed what the upgrade costs will be at this stage, nor when they will be released. They have indicated that upgrading to the latest version may not be necessary but this will require a number of processes to be changed in the software. MYOB will release this checklist, but it is not currently available and they have not provided a timeframe as to when it will be released.
- **QuickBooks:**
QuickBooks have indicated that those clients on their 2010/11 version will receive a free update for the software to handle the change in GST rate. This update will be released closer to 1 October, as their developers are currently working on this update. They suggest that clients on older versions should upgrade to the latest version of the software (for which there will be a cost) as this is the easiest way to upgrade the system. The cost will depend on what version the client is currently running.
- **Banklink:**
Banklink have indicated that there will be an update required to the software and this will form part of the Banklink download for the month of September 2010.
- **Xero:**
Xero have indicated that the changes to the software will incur no additional charge and will be implemented automatically in their software.

If you use a different software application for your GST records, then you will need to contact your software support supplier to confirm what changes are required to your systems prior to 1 October.

For those with manual cashbooks or excel spreadsheets (or similar), you will need to adjust your calculations manually.

Please note: Your system will need to be able to issue invoices (payables and receivables) at

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both GST rates in October 2010

6. Transitional Issues

- Businesses on the cash basis (that's most of our clients) will need to make an adjustment based on creditors and debtors as at 30 September in the GST return post the GST rate increase
- If your GST return period straddles 1 October, you'll need to complete a special one-off GST return as at 30 September

We anticipate that the month of October will be a very busy time for our firm. We will be assisting a large number of clients to ensure that their systems have been updated with the new GST rates and assisting clients where required with calculating their GST return for the period ended 30 September 2010 and the various adjustments required here.

It is our suggestion that you prepare this GST return earlier than you would normally as this will allow additional time if there are any unexpected issues that arise from the adjustments required for the return period. You may prefer to forward your GST return on to us to review before filing this with the Inland Revenue Department prior to 28 October 2010. As we anticipate a large increase in our workload due to the changes required in the GST returns, please contact us as early as possible in the month of October to ensure that we can action any changes required.

Should you have any queries with respect to the changes in GST and how this will affect your position, please don't hesitate to contact our office.



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