

Seven Things To Look Out For When GST Changes From 12.5% To 15%

Are you prepared for the change? The Government is looking to increase GST by 20% from 12.5% to 15% and it may happen as soon as October 2010. Will your business be ready? Businesses need to factor in the GST rise now to prevent being caught out. What can our small businesses do to get on top of a change?

Here are 7 things to be aware of:

1. **Accounting Systems:** Businesses need to check internal systems can cope with adding new GST rate and keeping the old rate during the transitional period. Change is likely to occur part-way through the standard financial year so they must ensure previously-entered data is not affected.
2. **Pricing:** Businesses not able to absorb a GST increase will need to raise prices by 2.2%. Businesses should review their contracts to determine if they can increase pricing for a GST rate hike.
3. **Consumer Activity:** Consumers are likely to spend more prior to a GST increase, as before the last change in 1989. Plan ahead to take advantage of this – possibly even encourage consumers to pay up-front for ongoing goods/services.
4. **Impact On Profit Margins and Pricing Points:** In order to maintain the same gross profit under the 15% GST rate, a product priced at \$9.95 under the 12.5% rate will increase to \$10.17 under the 15% rate. There will be a trade-off as to whether to bear some of the cost of the increase and build it into profit margins or to pass it on to the consumers.
5. **Re-Pricing Nightmare:** Prices in brochures, signage, and websites will need to be changed. The shelf-price of thousands of items may potentially need to be manually updated overnight.
6. **Multiple GST Rates:** Systems will need to operate on two GST rates after transition to allow for supplier invoices/credit notes etc at 12.5% or 15%.
7. **In-House Tools Need Sharpening:** Invoicing templates, GST return preparation processes, and reconciliation spreadsheets will need to be reviewed carefully to ensure they are accurate, particularly where spreadsheets are used.