

Rural Services What We Offer

Presented by:
Ashley Burdon





- **Housekeeping**



- **Emergency Exits**
- **Toilets**
- **Cell phones**

Business Advisory

Budgeting

- Assistance with Budgets/Cashflows
- Cashflow monitoring and feedback
- Expansion opportunities
- Expertise in CRM-Cash Manager, Banklink, MYOB.
- Assistance with Tax planning for farmers.

Finance

- Assistance with meeting Bank Covenants.
- Variance Reporting.
- Independent contact to discuss Loan structures, Interest Rates and Securities.

Plans & Restructuring

- Assistance to help clarify competing needs.
- Joint Venture formation & operational aspects.
- Succession Planning.
- Putting plans around goals once established needs and desired direction.
- Business structuring to meet those needs.

Farm Statistics

- Large database of farm statistics can be used for comparing individual financial & physical performance.
- Widely used by major banks when assessing farmer performance.
- DairyBase – Provide promotion & support functions.

Other Services for Rural Clients

- Tax team – Keep firm up to date on current taxation issues and are regularly consulted by our rural staff.
- Valuations – For those farmers looking to diversify with business assets, Stewart Perkins can provide valuation advice.
- Key issues relating to ETS and how this may impact our clients.

How to cope with the GST rate increase

Presented by Brad Phillips and Jill Stewart



Introduction

- GST rate increases from 12.5% to 15% effective 1 October 2010
- Impacts on all New Zealanders
- Wide reaching implications for everyone

Time of Supply

- Very important concept
- Determines when GST liability arises
- When GST liability paid depends on whether on invoice or payments basis
- 15% rate applies to supplies “made” on or after 1 October 2010
- Supply “made” when TOS occurs
- TOS determines rate of GST that applies to transaction

Time of Supply

- TOS pre-1 October 2010 – GST rate 12.5%
- TOS post-30 September 2010 – GST rate 15%
- General TOS rule:-
 - Occurs on earlier of invoice being issued or any payment being received by the supplier
 - Invoice issued or any payment received pre-1 October 2010 – GST rate 12.5%
 - Neither invoice issued nor any payment received pre-1 October 2010 – GST rate 15%

Time of Supply

- Associated persons
 - Goods to be removed TOS at time of removal
 - Goods not removed TOS at time made available
 - Services TOS at time services performed
- Door to Door Sales
 - TOS - day after the cancellation period expires under Door to Door Sales Act 1967
 - Watch if entered into pre-1 October but cancellation period expires post-30 September

Time of Supply

- Layby sales
 - TOS - time at which the goods are transferred to the recipient
 - If contract entered into pre-1 October but not transferred until post-30 September may need to increase the price
 - Proposed change
 - Payments received prior to 1 October – 12.5%
 - Payments received on or after 1 October – 15%
 - Not yet law
- Machines, meters etc operated by coins
 - TOS - time at which coin or token is taken from machine
 - Empty machines on 30 September

Time of Supply

- Tokens, Stamps or Gift Vouchers
 - TOS - time at which token, stamp or voucher is sold
 - Option of treating TOS as time of redemption if voucher has a face value
 - If using redemption as TOS may want to look at making time of sale TOS
- Hire purchase agreements
 - TOS - time agreement is entered into

Time of Supply

- Agreements to hire and Periodic Payments
 - E.g. monthly rentals, monthly insurance
 - TOS - earlier of payment becoming due or payment being received
 - If tax invoice issued when contract entered into need to look at increasing prices and issue new tax invoices
 - Lessee – ensure request a new tax invoice
 - Proposed change
 - Some contracts entered into prior to 1 October can lock GST in at 12.5%

Time of Supply

- Construction contracts
 - Where consideration is paid in instalments or periodically
 - TOS - earlier of a payment becoming due, payment being received, invoice being issued

GST Returns

- If taxable period does not end on 30 September 2010 have to do a split return – invoice and payments basis
- Part 1 – start of taxable period to 30 September
- Part 2 – 1 October to end of taxable period
- Part 1 and Part 2 return and payment due as normal
- E.g. Two monthly GST return covering 01/09/10 to 31/10/10.
Part 1 – 1 September 2010 to 30 September 2010
Part 2 – 1 October 2010 to 31 October 2010
Return and payment due 28 November 2010 for both parts

Payments Basis Adjustment

- Adjustment required to be calculated by registered persons on **Payments Basis**
- Included in 30 September 2010 return – Part 1 return
- GST accounted for on payments made and received up until 30 September 2010 at 12.5%
- GST accounted for on payments made and received on or after 1 October 2010 at 15%
- Adjustment recognises the fact some payments made or received on or after 1 October 2010 have 12.5% GST as TOS was pre-1 October 2010

Payments Basis Adjustment

- Step 1 = Total GST inclusive debtors at 30/09/10 which have GST at 12.5% (exclude zero rated supplies and exempt supplies)
- Step 2 = Total GST inclusive creditors at 30/09/10 which have GST at 12.5% (exclude zero rated supplies and exempt supplies)
- Step 3 = Step 2 – Step 1
- Step 4 = Step 3 * 4 / 207
- Step 5 = Positive amt Box 9 adjustment / Negative amount Box 13 adjustment

Payments Basis Adjustment

- Example

Debtors at 30/09/10 \$5,280

Creditors at 30/09/10 \$3,300

Step 1 = 5,280

Step 2 = 3,300

Step 3 = 3,300 – 5,280
= (1,980)

Step 4 = (1,980) * 4 / 207
= (38.26)

Step 5 = \$38.26 box 13 adjustment 30/09/09 return

Payments Basis Adjustment

- Example

Sale of goods 15/09/10 for \$1,000 (GST incl). Invoice issued 15/09/10. Payment received 15/10/10. File GST on two monthly payments basis.

- TOS – 15/09/10 – GST at 12.5%

- Tax invoice shows 12.5% GST - \$111.11

- 30/09/10 return – payments basis adjustment \$19.32 box13
 - $(1000 * 4 / 207)$

- 31/10/10 return - \$1,000 box 5 GST of \$130.43

- Overall GST paid of \$111.11 (130.43 – 19.32)

Payments Basis Adjustment

- Example

Sale of goods 15/09/10 for \$1,000 (GST incl). Invoiced issued 15/09/10. Payment received 15/10/10. File GST on invoice basis.

- TOS – 15/09/10 – GST at 12.5%
- Tax invoice shows 12.5% GST - \$111.11
- 30/09/10 return – \$1,000 box 5 GST of \$111.11
- No payments basis adjustment required
- Overall GST paid of \$111.11

Payments Basis Adjustment

- 30/09/10 debtor written off as bad on or after 01/10/10
 - Box 9 adjustment
 - = debt written off * 4 /207
- 30/09/10 debtor **issued** a debit or credit note
 - Debit note – box 13 adjustment
 - Credit note – box 9 adjustment
 - = value of debit or credit note * 4 /207

Payments Basis Adjustment

- 30/09/10 creditor and **receive** a debit or credit note
 - Debit note – box 9 adjustment
 - Credit note – box 13 adjustment
 - = value of debit or credit note * 4 /207
- MDP can provide assistance with split returns and payments basis adjustments

Invoice Basis returns

- Split return may be required
- No payments basis adjustment needs to be calculated
- Bad debt write offs, debit and credit notes occurring on or after 1 October 2010 but TOS occurred pre-1 October 2010 – GST included in either box 9 or 13
- Do not include in boxes 5 or 11

Computer Systems

Will Your System Cope?

Computer Systems

The key issues to review are:

1. Can GST rates be updated globally?
2. Will this automatically apply to customers and suppliers?
3. Will this automatically apply to GST inclusive product pricing?
4. Can a GST return be completed for one month when default set up is 2 or 6 months?
5. Can the GST rate be over-ridden during transaction entry?
6. Will the different GST rates show correctly on GST return printed from the software?

Computer Systems

- Our review indicates most packages score YES for questions 1, 2, 4 & 5, **but NO for 3 and 6.**
- **Impact of Answer - No**
 - Question 3 – you will have to update GST inclusive pricing.
 - Question 6 - you won't be able to use the GST return from your current version and use this as the basis of your GST return.
Your options:
 1. Use another report to calculate the figures for your GST return.
 2. Update or replace your software.

Computer Systems – How to Change

- Update global GST rate from 12.5 to 15%
- Add a new GST rate for the old 12.5%
- Import/update GST inclusive pricing
- When most September transactions finished
- Timing may be different for POS (point of sale)

Computer Systems We Have Reviewed

- Advanced Business Manager
- MYOB family
- Prophet
- NZA Gold
- Aurora One
- Accomplish Cash Manager
- To look at Quickbooks, Quantum, Plusfactor

Computer Systems - Summary

- Need to review systems now.
- May need upgraded/replaced.
- Changes should be tested before putting into production (suppliers will generally do this).
- Need to be very careful if preparing GST returns from computer generated reports.
- Tax rates are also changing, so you will need to update your payroll software too.

Back to Brad



Contracts

- If express provision in contract price cannot be increased for GST rate increase then price cannot be altered
- If no provision in contract then supplier able to increase the agreed price by amount of GST rate increase
- Have to increase price before 1 January 2011
- Enter into all contracts as “plus GST”
- Review contracts and discuss with the other party

Contracts

- Increasing price by GST increase does not apply to grants or subsidies provided by a Public Authority
- Discuss with Public Authority
- Amounts charged under any Act or Regulation automatically increased by the GST rate increase

Pricing

- Most price on GST inclusive basis
- If prices not increased from 1 October profit margin decreases
- Need to increase prices
- How much should you increase prices by?

Pricing

- Example

A widget has a sale price of \$1,000 GST inclusive prior to 1 October 2010.

	Pre-change	Post-change	Same margin
Sale price	1,000.00	1,000.00	1,022.22
GST	111.11	130.43	133.33
GST exclusive	888.89	869.57	888.89

- Profit margin decreased by 2.17%
- Have to increase price by 2.22% to keep same profit margin

Pricing

- Increasing prices on “price point” products may not be practical
- If GST registered and suppliers increase prices by 2.22% you are not out of pocket
- If not GST registered or make exempt supplies and suppliers increase prices you will be out of pocket
- GST rate change happens on a Friday, need to be prepared in advance to change prices

Debit and Credit Notes

- GST Rate shown on debit or credit note depends on TOS for original supply
- TOS pre-1 October 2010 – 12.5%
- TOS post-30 September 2010 – 15%

Tax Invoices

- Need to hold a “valid” tax invoice to claim an input tax deduction
- If incorrect rate or amount used “invalid” tax invoice
- Check all tax invoices for correctness

Consumer Demand

- Increased prices from 1 October 2010
- Increase in demand prior to 1 October
- Decrease in demand after 30 September
- Consider impact on resources - staff

Consumer Demand

- GST introduced 1 October 1986
 - Value of sales increased by 22.9% in September 1986
 - Value of sales decreased by 27.6% in October 1986
 - Value of sales back to normal December 1986
 - Industries significantly affected – furniture, household appliances, hardware, dept stores – high priced and more durable goods
 - Least affected industries - supermarkets

Consumer Demand

- GST increased from 10% to 12.5% 1 July 1989
 - Value of sales increased by 8.5% June 1989
 - Value of sales decreased by 15.6% July 1989
 - Value of sales back to normal August 1989
 - Industries significantly affected – same as 1986 plus car sales
 - Least affected industries – same as 1986
 - Half the affect introduction of GST had
- Conclusion
 - Consumer spending on retail goods will be brought forward and decrease immediately following
 - BUT personal tax rates cut from 1 October 2010

Cashflow Requirements

- Fund increased costs
 - temporary if GST can be claimed
- Increase in sales collected
 - Temporary as passed onto IRD
 - May offset increased costs
- Exporters will face temporary increased costs until GST refunded
- Increased demand prior to 1 October 2010
 - Fund increased stock levels
- Decreased demand after 30 September 2010
 - Cashflow constraints due to decreased sales
- Forecast cashflow impact of GST rate change – MDP can help

Spreadsheets

- If GST calculated in spreadsheets will need formulas altered
- Do not hardcode numbers into formulas
- Use data input pages
- Craig Sutherland spreadsheet “guru” can help

Project Teams

- Large businesses should consider forming project teams
- Identify issues and opportunities
- Tax team can meet with project teams to discuss and identify issues

Advance Billing

- Consumers face increased costs from 1 October
- If billed before 1 October 2010 consumer pays less
- Bill in advance
- Have billing up to date at 30 September 2010
- Watch out for anti-avoidance provisions

Stationery, forms, brochures and contracts

- If pre-printed with GST rate of “12.5%” need reprinted
- Marketing material needs updated with price increases
- Review all stationery and marketing materials now
- Act now! Printing firms will be busy

Automatic Payments

- If prices increase need to alter automatic payments from 1 October 2010

Fringe Benefit Tax

- Supply of fringe benefit by a registered person is a taxable supply
- GST rate that applies depends on when fringe benefit was provided
- Provided pre-1 October 2010 – 12.5%
- Provided post-30 September 2010 – 15%
- Will need to split when doing income year and annual FBT returns

Entertainment

- Supply of 50% non-deductible entertainment by a registered person is a taxable supply
- Two options
 - Expenditure incurred pre-1 October at 12.5% and expenditure incurred post-30 September at 15%;
or
 - All expenditure at 15%

Change in use adjustments

- Principally acquired for making taxable supplies but used for personal purposes or making exempt supplies – output tax adjustment
- Principally acquired not for making taxable supplies but used for making some taxable supplies – input tax adjustment
- GST rate that applies when calculating adjustment is rate when change in use applied
- May have to split between 12.5% and 15%
- Can solely use 15% if results in output tax adjustment

Interest, penalties and late filing

- Can be remitted if error relates to transition to new rate
- Only applies if error arises prior to 31 December 2010
- No remission if subject to a shortfall penalty

Calculating GST

- $\text{GST} = \text{GST inclusive} * 3 / 23$
- $\text{GST} = \text{GST exclusive} * 3 / 20$
- $\text{GST exclusive} = \text{GST inclusive} * 20 / 23$
- $\text{GST exclusive} = \text{GST} * 20 / 3$
- $\text{GST inclusive} = \text{GST exclusive} * 23 / 20$
- $\text{GST inclusive} = \text{GST} * 23 / 3$

Who to Contact

- Technical GST queries – Tax team – Brad Phillips, Chris McDonald or Craig McCallum
- Concept Cash Manager (CCM) – Valerie Taylor / Melanie Walker
- Banklink – Jane Gorton
- Other software – Strategic Software at MDP Ltd.
- Spreadsheets – Craig Sutherland