

## Bright Wild & Thomas



Photo of the Bright Wild & Thomas team in our new reception area at 1168 Amohia Street.

## GST Rate Change

### Special Transitional Return:

Most clients with a March balance date have a clean cut-off for GST returns as they will file to 30 September. However, for GST returns that span 1 October a special transitional return needs to be filed. This has two parts:

**Part 1** – for supplies at 12.5% (transactions up to 30/9/10), plus the rate change adjustment

**Part 2** – for supplies at 15% (from 1/10/10) to the period end

These are added together and returned on the one form, by the normal due date.

If provisional tax is paid with the GST, part 3 has the provisional tax calculation.

The issue that involves most returns is the special one-off GST rate change adjustment calculation form to be completed by payments basis and hybrid filers, as at 30/9/10. For returns to 30/9/10, filers will use the 12.5% rate. From there on, they will use the 15% rate. An adjustment

will therefore need to be done at 30/9/10 for debtors and creditors as the GST returned will differ from the GST charged. The special adjustment compensates for this. On the form, filers will enter Debtors and Creditors as at 30/9/10 and divide the resulting figure by the adjustment rate of 51.75. There will be a GST claim if Debtors are higher than Creditors. The adjustment must be done by the time the first GST return is due on or after 30/9/10.

For all returns we do in-house, we will require debtor and creditor lists from clients for this period.

### TO ENSURE YOU ARE READY FOR THE RATE CHANGE:

- Ensure software is up to date. Account for the new 15% rate on all sales & income, expenses and purchases from 1/10/10
  - Be ready to issue tax invoices at 15% from 1/10/10
  - When issuing credit or debit notes, ensure the GST rate is the same as the original tax invoice
- The new GST rate calculation is 3/23 to find the GST component of a GST-inclusive figure.



# GST

## SPECIAL PROVISIONS

### Finance Leases

GST can be applied at 12.5% where the agreement was entered into prior to 1/10/10, the term is 5 years or less and the lessor notifies the lessee that 12.5% continues to apply.

### Annual Successive Supplies (Incl Insurance Premiums)

Where supplies of services are made over a term and payments are received regularly, GST can be charged at 12.5% if:

- The contract was entered into before 1/10/10, and
- The contract has a term of 1 year or less, and
- The customer is able to pay the price on a periodic basis, or
- The contract has an upfront option, which has not been exercised

The supplier must account for the GST on the total amount payable under the contract before 1/10/10 and the customer must be notified that GST can be claimed at only 12.5%

Eg, insurance, alarm monitoring, advertising.

### Periodically Billed Services

Where services are provided successively and are billed periodically (power, phone, gas), if the invoices are dated on or before 30/9/10, are issued by the 11th of October and provide for payment within 60 days of invoice, then GST can be charged at 12.5%

### Lay-By Sales

Normally the GST rate that applies to the entire sale is the GST rate at the date of the last payment. This is also when GST becomes payable by the retailer. However, the Government is proposing a concession whereby contracts that were entered into before 20/5/10 and which have payments that span 1/10/10, can return GST at 12.5% for payments made before 1/10/10. The supplier is required to return that GST in the September/October return. Payments made after 1/10 will be at 15%, so retailers will need to increase the price for payments made after 1/10.

### Replacement Invoices

A concession allows replacement invoices to be issued to reflect the new rate from 1/10/10, instead of issuing debit & credit notes (eg, landlords, replacement goods).

Where credits are given by reversing the entire original tax invoice and issuing a new invoice, the new invoice can be issued at 12.5% after 1/10/10, as long as the credit relates to a supply that arose before 1/10/10.

### Issue Date Versus Invoice Date

Invoices for goods and supplies supplied on or before 30/9/10 can have GST charged at 12.5% if the invoice is issued by 11 October 2010 and payment is due within 60 days.

For further information, see:  
[www.ird.govt.nz/changes](http://www.ird.govt.nz/changes)

# Are LAQC's Still Valid?

As many of you will be aware the Budget this year announced changes to the Qualifying Company & LAQC regime which will take effect from 1st April 2011. To date only an Issues Paper has been released by the IRD, and it will be some time yet before the final regulations are in place.

The intention is to take the limited liability partnerships regime and overlay that on top of the qualifying company legislation. Basically the regime will pass through any profits or losses onto the underlying shareholders tax returns, and income is taxed at their marginal tax rates.

The regime then limits the ability to offset any losses to the amount of money the shareholder has "at risk" in the company. This can be in the way of shareholder advances or even personal guarantees of company debt. For example, often a shareholder of a LAQC rental property is required to personally guarantee the mortgage borrowings to their bank to support the actual mortgage held directly. As each shareholder is usually jointly & severally liable under the guarantee this can be counted by each shareholder as money at risk, and would qualify the person to claim their share of losses up to the level of the debt guaranteed. It is therefore likely that many of our clients with rental properties in this structure will see little change to their effective tax deductions. Remember though that there will be no depreciation claim on buildings from that year, giving smaller tax losses anyway.



Other issues which will arise when QCs are taxed as partnerships are:

- losses and profits of the company will be taxed directly to the shareholders in proportion to their shareholding at the shareholder's marginal tax rates
- a sale of shares will be deemed to be a sale of a portion of the company assets, meaning depreciation recovery issues
- imputation credits will disappear on transition to the new regime, so future distributions from QCs will not be subject to tax
- election out of the QC regime will be a deemed sale of all the assets, again with depreciation recovery issues

However, there are bound to be other unintended consequences of the new rules. For this reason, we are not jumping the gun, but will wait for the legislation to be released, and we expect to be contacting all of our clients with qualifying companies and LAQC's over the summer months to discuss individual solutions for each client. Some companies may find that an election out of the regime is the best option, others that no change is necessary, and some may need a full entity restructure.

The point of this article is just to advise that we will not be forgetting you, and will contact you before the end of the financial year in relation to your QC entity.

In the meantime if you have any questions, please don't hesitate to contact your Partner or Client Manager.

# Important GST Message for MYOB Users

MYOB has upgraded their software to make the GST change easier for you.

This upgrade will be available free if you are on MYOB Business Support or if you upgrade or purchase MYOB Accounting Products from 15 July 2010.

If you are using MYOB Accounting Products prior to version 19.5 or Cashbook prior to version 8 then you will need to upgrade to be ready for the GST change.

Upgrade Cost:

Former Name	New Name	Upgrade Cost
MYOB Accounting	MYOB AccountRight Standard	\$229 + GST
MYOB Accounting Plus	MYOB AccountRight Plus	\$457 + GST This Includes Payroll
MYOB Premier	MYOB AccountRight Premier	\$399 + GST
MYOB Premier Enterprise	MYOB AccountRight Enterprise	\$599 + GST



AccountRight new features:

- New GST rate of 15% with functionality to record transactions at 12.5%.
- GST transitional assistant to make it easier to update default GST code.
- Updated GST returns.
- Updated GST detail report
- New report for transitional IRD requirements.

For more information or help on the MYOB product changes contact Martin, Jordan or Nicky at Bright Wild & Thomas.

To check whether your MYOB software is ready for the GST change visit:

[www.brightwildthomas.co.nz/myob](http://www.brightwildthomas.co.nz/myob)

If you are interested in purchasing the latest MYOB Accounting software please visit our website:

[www.brightwildthomas.co.nz](http://www.brightwildthomas.co.nz)