

GST – Post 1 October 2010

With the GST changeover date of 1 October 2010 behind us – it is important to keep the focus on key issues for retailers resulting from this GST rate change.



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A question many retailers have asked me during the recent GST seminars for New Zealand Retailers Association (NZRA) members is 'how do we know what GST rate to apply in particular situations'? In simple terms this is decided by establishing the 'time of supply' for the goods or services. Generally, the time of supply is the earlier of the time an invoice is issued or a payment is received in respect of a supply of goods or services. If the time of supply occurs after 1 October 2010, the applicable GST rate is 15 per cent. New transitional rules announced by the Government allows for GST to be transacted at 12.5 per cent for specific situations.

There are a number of instances where retailers may have to decide on the 'time of supply'. I have highlighted the main GST issues facing retailers after the GST changeover date of 1 October 2010.

Payment of deposits

The effect of the payment of a deposit for goods and services is often not recognised for GST purposes. This is different to

layby sales (which are discussed below). Given that GST is generally payable at the time a sales invoice is issued, or at the time any payment is received from a customer (whichever comes first), the payment of a deposit will generally result in a supply being deemed to have been made at that time for GST purposes.

Therefore, as the sale is made at the time the deposit is received, the full GST for the sale must be accounted for in your next GST return – if you account for GST on an invoice or a hybrid basis to the IRD. If you account for GST on a payments basis, this will not impact on you but your systems will need to be able to cope. You will need to account for GST at 12.5 per cent on sales made before 1 October and payment received for that sale after 1 October 2010. If you are registered for GST on a 'payments basis,' please see below the adjustment you will need to make in your next GST return.

Laybys

Laybys provide a different scenario to receipt of deposits. Here, the

time of supply for GST purposes is not triggered until full payment for the goods is received. This is because title of the goods does not pass to the customer until the final payment. Other than those affected by the transitional rules, all laybys where the final payment has not been made by 1 October 2010 will be affected by the GST increase. GST on a layby sale completed after 1 October will need to be adjusted for the GST increase and GST accounted for at 15 per cent on the total payments. This will impact negatively on your customers; you will need to make a decision as to whether to pass on the price increase resulting from the GST rate change or maintain the price to your customer and absorb the impact of the GST increase on laybys.

I have also found some retailers who account for GST on a 'payment basis' actually return the GST at 12.5 per cent as each payment is received. This is incorrect and you will need to ensure that any laybys which are not completed at changeover date have GST applied at 15 per cent on all the payments as time of supply for GST purposes is not

triggered until the final layby payment is received.

New transitional rules allow laybys in place on budget night (20 May 2010) to have GST at 12.5 per cent for payments made before 1 October and at 15 per cent for payments after 1 October. If the layby is cancelled post 1 October 2010, then GST will need to be accounted for at 15 per cent on any payments retained by the retailer.

Exchange of goods

Where a customer has purchased goods before 1 October 2010 and brings them back to you to be exchanged after this date, the price would have changed by at least the amount of the GST increase. You have two choices. If you cancel the original sale and create a new sale, the new transitional rules will assist you in keeping the GST at 12.5 per cent. This is to ensure that retailers are not out of pocket on exchange of goods where the original time of supply was before 1 October 2010. The difficulty is that you will end up with GST transactions at 12.5 per cent post 1 October 2010 and this needs to be

correctly tracked in your systems right through to your GST return.

Alternatively, you could replace the goods on the original sale without creating a new transaction and GST will remain at 12.5 per cent as you will maintain the original time of supply.

Refunds

Refunds will pose some difficulty for retailers. If you have updated your point-of-sales system to 15 per cent GST, check and ensure that it can still handle transactions at the 12.5 per cent GST rate, otherwise a refund will calculate the GST at 15 per cent. It will be important to keep track of refunds and to account for GST at the

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correct GST rate in your accounting system and GST returns.

Refunds for sales made before 1 October 2010 should be based on the sales transactions receipt that a customer will provide and GST will be refunded at 12.5 per cent. Your staff will need training to understand how this will work if your point-of-sale system is unable to process a refund for a sale made before 1 October 2010 at the 12.5 per cent GST rate.

Poorly trained staff will hold up your point-of-sale.

Hire and contracts transactions

Hire purchase transactions are another area where problems commonly arise.

Where a supply of goods and services is under a hire purchase agreement, the supply is deemed to occur for GST purposes when the agreement is made – and the full GST must be accounted for in your next GST return.

A hire purchase agreement can be compared with an agreement to hire, where a supply arises each time a payment becomes due or is received, and the GST is payable only on those instalment payments.

For GST purposes, the term ‘hire purchase agreement’ has the same meaning as defined in the Hire Purchase Act 1971. As this term is defined very widely, situations often arise where transactions are mistakenly considered to be agreements to hire – when in fact they are hire purchase agreements. The resulting mistake is an underpayment of GST in that GST is incorrectly partially accounted for each time a payment becomes due or is received, rather than in full when the agreement is entered into.

Payments made after 1 October 2010 on a hire purchase agreement entered into before 1 October 2010 will still be at the

12.5 per cent GST rate. On the other hand, hire agreements which include periodic payments entered into prior to 1 October 2010 will need to have the payments adjusted for the increase in GST for any payments received after 1 October 2010.

However, new transitional rules allow ‘grandparenting’ of certain contracts entered into before 1 October 2010 to lock the GST rate at 12.5 per cent even though payments are received after this date. These rules apply to contracts entered into before 1 October 2010 with a term of one year or less or are reviewed annually and where the customer is liable to pay the price on a periodic (monthly) basis or the contract has an option to pay up front but that option has not been exercised. These new transitional rules will not apply if the contract is renewed monthly or every time a payment is made.

Late tax invoices

The new transitional rules also apply to late tax invoices. This is important for retail businesses that provide services and your billing system issues an invoice after the end of the month. For services provided before 1 October 2010, but where an invoice is issued after this date, you may still be able to account for GST at 12.5 per cent, subject to the invoice being dated before 1 October but issued before 11 October and the due date for payment is no later than 60 days from the invoice date.

Payment basis adjustments

Smaller retailers using the ‘payment basis’ GST return will need to make a special adjustment to your next GST return to ensure that all your payables and any receivables are correctly adjusted for GST in the next return. This adjustment will ensure that you are correctly accounting for payments basis transactions post 1 October 2010

even though the supply of goods and services may have been completed before 1 October 2010. If you need more details about this adjustment, please e-mail me for a worksheet.

Systems

It is important to keep a vigilant check on your systems to ensure that GST is correctly processed from your point of sale to your accounting records and onto your GST returns. Errors could remain undetected which could potentially result in lost dollars for your business. Remember to update your point-of-sale receipts to show the GST rate prints at 15 per cent and update all internal reconciliation and pricing worksheets with the new GST rate. Where you are having to use both 12.5 per cent and 15 per cent GST rates post 1 October 2010, check that this is processed correctly through your systems

Concluding comments

The filing of your next GST is an important exercise. Please start the process early and double-check everything for accuracy. If you need a review of your GST return before filing or need to discuss how to account for particular transactions, you may contact me via the New Zealand Retailers Advisory Service. ■

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