

## **NEWSLETTER**

### **GOODS & SERVICES TAX:**

When GST increases to 15% on 1<sup>st</sup> October 2010 all commercial clients will need to decide whether to alter prices charged for goods and service to cover all GST inclusive prices.

Also check that your business is ready to account for the new 15% GST rate on all sales and income as well as purchases and expenses from 1 October 2010.

If you use software to account for GST, check that you can change the rate or can get an update from your software provider to do this.

Clients who account for GST on payments or hybrid basis will need to identify invoices that have been issued or received as at the 30<sup>th</sup> September 2010 but not paid or received (viz calculate accounts receivable and payable as at 30<sup>th</sup> September 2010) and a GST adjustment is to be done on this return..

If your software can not cope, you will need to update or maybe consider getting your GST return completed by our firm by using Bank Connect. A large proportion of our client's use this electronic service which allows us to provide monthly cash flows and is most cost and time efficient as once the final GST Return for the income year has been completed draft accounts are set to go.

### **General Time of Supply Rules:**

Time of supply rule is the earlier of an invoice being "issued" or any payment being made whichever is earlier in respect of that supply. Where goods or services are supplied pre 1 October 2010, invoices can be issued up to 11 October 2010 at the 12.5% rate. This is provided the invoice is dated 30 September or earlier and payment is due in 60 days

### **Existing Contracts:**

The GST Act allows for prices to be increased by the increase in GST.

### **Hire Purchases:**

Agreements entered into before 30<sup>th</sup> September 2010 will be at 12.5%, agreements from 1<sup>st</sup> October 2010 will be at 15%.

### **Lay Buys:**

GST will be at the rate applying when ownership passes, generally when final payment is made.

**Progress Payment:**

GST applies earlier of when payment is due or when the invoice is issued.

**Rental on Hire Agreement:**

GST Needs to be accounted for in the period the payment is due (invoice basis) or the payment is received (payment basis)

Do not forget if you can claim the GST the increase will not matter.

Some clients may want to de-register from GST prior to the increase to 15%. Provided the entity is under the \$60,000 taxable supply threshold then de-registration can be commenced.

Note GST needs to be repaid based on 1/9<sup>th</sup> of the market value of the assets retained. The curtilage which includes the dwelling and one quarter hectare is excluded. There is an opportunity for those who owned the property prior to 1/10/1986 to de-register based on the lower of cost or market value. Note the entity must be under the threshold stated above. Call us if in doubt.

**Change of Use Adjustment:**

If taking out of the GST net, recommend doing this prior to 30 September to capture GST at 12.5%.

If change of use results in input tax credit, any changes after 30 September at 15%. IRD may query when change occurred.

GST information: [www.ird.govt.nz/changes/gst/businessess/returns](http://www.ird.govt.nz/changes/gst/businessess/returns)

Tax Rates: Changes to take place on October 1st 2010

- Company rate: 28% (down from 30%-2011-12 Tax year)
- Trust rate: 33% (stays the same)
- PIE (Kiwi Saver) fund rate: 28% (down from 30%)
- \$0 - \$14,000: 10.5% (down from 12.5%)
- \$14,000 - \$48,000: 17.5% (down from 21%)
- \$48,001 - \$70,000: 30% (down from 38%)

**Depreciation:**

0% Depreciation Rate will apply for buildings with an estimated useful life of 50 years or more for the 2011-2012 year.

**Provisional Tax**

As a consequence of not claiming depreciation on buildings in the 2012 year all clients affected will need to consider the extra taxable income that will result

## **PAYE changes for employers**

The changes to personal income tax rates will affect all employers. To help you prepare for these changes the Inland Revenue Department will:

- update the PAYE online calculator (found under "**Work it out**")
- update the PAYE tables (IR340 and IR341) in early September
- work with payroll developers so they can update payroll software
- update the *Tax code declaration (IR330)* form
- provide further detail in future editions of the *Business Tax Update*.

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## **What you need to do**

The new PAYE rates come into effect from 1 October 2010. This means you need to start using the new rates to calculate the correct amount of PAYE to deduct from employees' salary and wages for pay periods ending on or after 1 October 2010.

### **If you have an employee who uses a secondary tax code**

The new PAYE tables effective from your employee's first pay period ending on or after 1 October 2010 will include the new secondary tax rates.

### **If you have an employee who has a special tax code / repayment rate**

Your employee will give you a new special tax code prior to 1 October 2010. The new certificate will include the new tax rates and thresholds.

## **Handling extra pays**

Lump sum payments made to employees are known as extra pays. Tax on extra pays is currently withheld at 12.5%, 21%, 33% and 38% depending on your employee's annualised income. These rates and thresholds are changing. This applies from the first pay period that ends on or after 1 October 2010.

## **Staff Change:**

Sarah our Senior Accountant is leaving our Firm on the 31<sup>st</sup> August 2010 to pursue her own career. To those clients dealing with Sarah there are several options for you to consider. Prosser Quirke has a depth of experienced personnel and in the first instance you could contact Steve Kelliher. Steve has a young family and has been with the firm five years now and has Commercial and Farming experience. He is a Director of the firm along with Don Robertson and Peter Quirke who can also be contacted. Leanne Firman hopes to obtain her Accounting Degree at the end of 2011 and is also available to be contacted along with Sharon McLauchlan.