

Issue 45

Index

GST Increase	1
GST Increase coming ready or not?.....	2
What's It Mean? Price/Earnings Ratio.....	3
What's It Mean? Trend Analysis	3
Do you have a strategy for the recovery?	3
Business Plans - Questions to consider on distribution	4
The future of Gift Duty	4
Upcoming Events	4

BUSINESS *forward*



GST Increase

GST is set to increase from 12.5% to 15% on 1 October 2010. As the transition date has drawn closer, businesses around the country have been working on the issues that will be faced. One key consideration will be whether their accounting systems will be able to cater for multiple rates simultaneously while producing technically accurate GST returns, invoices, credit notes and debit notes. In some cases businesses have found that 'grey areas' exist under the GST legislation or that their existing practices are not technically correct, or both.

The time of supply for a transaction is important in a GST context as it determines the rate that will apply, i.e. if a supply takes place prior to 1 October 2010 the 12.5% rate will apply. By default, the time of supply is the earlier of an invoice being issued or any payment being received by the supplier. One potential 'grey area' involves the sale of land. For example, a sale and purchase agreement is executed on 15 September 2010, the agreement becomes unconditional on 15 October 2010 at which time a 10% deposit is paid. Assuming no invoice has been issued prior to 15 October the payment of the deposit is likely to trigger the default time of supply rule (assuming there is no specific provision for the deposit to be held in a stakeholder capacity) and the rate of 15% will apply to the sale. This scenario could be interpreted incorrectly if people assume the execution of the contract will allow the lower rate of 12.5% to apply.

In specific scenarios the default time of supply rule is altered. This is the case where, for example, goods or services are supplied or paid for over a period of time. The time of supply for construction contracts, for example, is spread over the term of a contract based on the earlier of an invoice being issued, or a payment being due or received. In some cases it can be unclear if a particular contract falls under this timing rule or the default timing rule.

Another area of uncertainty relates to the supply of services by periodic payment, such as telephone contracts, internet, sports memberships etc. In this type of situation, the time of supply is the earlier of when a payment is due or paid. Consider a supply of a service provided in August, which is invoiced in September, but payment is not due until October. The rate of 15% would apply to a service made to a customer two months prior to the rate changing, an outcome the customer is unlikely to expect. To avoid customer complaints a service provider could pay the additional GST from their own margin.

The Government and IRD have acknowledged uncertainty exists and formed the GST advisory panel to consider the issues and recommend solutions, whether by policy initiatives or legislative change. A website has been launched at www.gstadvisory.govt.nz and members of the public are encouraged to send submissions outlining issues they are encountering.

Realistically speaking, some businesses are likely to take a pragmatic approach and get their systems and GST returns as close as possible to being correct and move on. The cost to achieve perfection could be considerable, when compared to the cost of getting it wrong. A reasonable approach should be expected by the IRD, given the one-off nature of the change and the cost being imposed on business to employ a change in the law imposed by the Government.



GST Increase - coming ready or not?

Question: A retailer sells a pair of black shoes on 29 September for \$225 (incl GST). The customer brings the shoes back on 1 October and swaps them for a brown pair.

What are the GST implications and are you prepared?

Some of the things that require consideration and action include:

- **Pricing and Profit:** To keep the same gross profit under the 15% GST rate our shoes, which are priced at \$225 at the 12.5% rate, will need to increase to \$230.00 under the 15% rate. Should the price go up so the GST increase is passed on to customers or is the price to be held to keep sales up? So here's a challenge for those who operate a Bar. I buy a glass of wine at 11:59 on the 30th for \$10 - how much are you going to charge me for the glass I buy for my mate 2 minutes later at 12:01 on the 1st (\$10 or \$10.22) and how are you going to track the GST?
- **Re-pricing:** If the price is to go up on 1 October, how are the shelf prices/labels to be changed (and what about brochures, signs and websites)?
- **Two GST rates** will apply from 1 October to allow for supplier invoices/credit notes etc at 12.5% or 15%. Will you cope and understand?
- **New tax invoices** will be needed for periodic payments (eg: rent) so that GST claims can be made for payments from 1 October as the rule is 'no tax invoice - no input tax claim' and the 12.5% invoice won't work.
- **New AP's** will need to be in place for periodic payments as the new rate applies from 1 October.
- **Inland Revenue** will be tougher as there will be more money at stake after 1 October.

Are you prepared for the 'special' September GST return?

If you are on "Payments basis" you will need to do a GST adjustment in the return to 30 September whereby you will account for GST on your debtors and claim GST on your creditors at 12.5% minus the GST at 15%. A refund or tax to pay will result. Great care will be required in preparing these adjustments. Invoice basis registered persons may also have to make an adjustment - especially if there are any secondhand goods transactions (primarily relating to land we would expect) underway.

Are you prepared for the new GST returns?

All receipts and transactions after 1 October suffer the new rate - as do purchases and payments. The new tax fraction is 3/23 and this is the most accurate ratio to use. Dividing by 7.6 is inaccurate and could lead to rather significant errors in GST returns. To get close to the correct result 7.6666 needs to be used. We don't think that you should underestimate the work, cost and risk involved from the GST rate increase.

For example, GST on vouchers (eg: book) is generally accounted for when a voucher is sold (so 12.5% pre-increase) - not when redeemed on a book (no GST on redemption), unless agreement is the other way around meaning a voucher acquired pre increase will be worth less on 1 October. Those dealing with vouchers need to know what they are dealing with.

Another example: currently, for lay-by sales, GST is not accounted for until the goods are collected - for the rate change, payments made pre-1 October will suffer the new rate.

The above is an example of the complications and of a Government move to change some time of supply rules.

Over the next 2 months it will be necessary to watch and listen for further Government tinkering.

And what about those shoes?

The retailer issues a credit note for \$225 (incl GST at 12.5%) and claims \$25 and issues an invoice for \$230 (or \$225 if not charging more) at 15% and so pays \$5 to Inland Revenue (or \$4.35 if the retailer does not charge any extra for the brown shoes).

Are you ready??

Source: Tax&More Ltd

Be sure to read each article with the mindset 'How this could apply to our business'. Thinking of it that way will guarantee that you get value. Also make copies for each team member. To really make sure something positive happens, work with your business development specialists to talk your team through ideas.

What's It Mean?

Price/Earnings Ratio... Defined as the share price divided by the earnings per share.

One of the most widely used ratios, the Price/Earnings ratio compares the current price with earnings to see if a stock is over or under valued. It indicates an expectation of the company's performance in the future. Generally a high P/E ratio means that investors are anticipating higher growth in the future, though if a company has a low P/E ratio it doesn't necessarily mean that it is undervalued. It can be useful to compare the P/E ratios of other companies in the same industry, or to the market in general, or against the company's own historical P/E ratios.

The P/E ratio is available on a daily basis in the NZ Herald for all companies listed on the New Zealand Stock Exchange.

What's It Mean?

Trend Analysis... assists in planning your business growth and goal setting based on the previous year's performance. Factors affecting Trend Analysis include competition; management; business planning; business re-investment; and demographic information of customers, etc.

Do You Have A Strategy For The Recovery?

Whilst many other western economies remain in recession, economic forecasters indicate New Zealand is on the road to recovery. Facing a recovery is as important as planning for a slowdown.

- Should you lock in interest rates on borrowed funds from banks and other institutions before any interest rate increases?
- Have you had discussions with your suppliers to ensure that they will be able to supply the quantity of stock that you believe you will need in your business so that you can supply your customers?
- What did you learn from the downturn?
- What changes in strategies need to be put in place for the recovery?
- Have you got sufficient working capital to cover the money that you will need to invest in stock and work in progress?
- What is the state of your investment in debtors?
- Are your debtors' days outstanding in line with your budget expectation?
As the business recovery takes off, will you be able to fund your business requirements?
Do you need to negotiate now for additional loans or to raise capital from Business Angels?
- Is now the time to review your market distribution channels?
- Are you happy with the performance of resellers/salespeople?
- What has happened to your competitors during the downturn?
- Have you analyzed competitors' businesses?
- Can you effectively compete with your competitors'?
- Are your staff motivated and trained to take the business forward as the recovery emerges?
- Have you got a vision for the business?
- Are you able to supply the leadership to take the business forward as the recovery emerges?

Now is the time to review your marketing plan and business plan and calculate capital requirements so you can end up with a larger market share at the end of the business downturn.

There are potential market opportunities if you don't sit back but actually aggressively plan what your business is going to do as the recovery unwinds.

If you need assistance in determining your strategy, please contact us.

An Important Message

While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.

Business Plans - Questions to Consider on Distribution

Do questions of distribution affect your business?

Do your customers rely on receiving your products quickly, reliably and in good order? Can your competitors transport their products more cheaply or quickly? Are there alternatives available to you? Does the best presentation of your product to the buyer depend on it looking and tasting as fresh as when it left your premises? Are your products fragile, requiring specific handling methods or equipment?

In short, do you have a system for evaluating whether your distribution network is serving your business as well as it could be?

- Have you compared the costs of the various distribution methods?
- Are deliveries being made within a reasonable timeframe?
- Do you receive many complaints re distribution methods used?
- If you are using an external distributor, do you:
 - Hold meetings with the distributor?
 - Train distributors' staff in your products?
 - Set annual sales targets for distributors?



It's important that your distribution network serves your business at optimum level without unnecessary costs.

Call us if you'd like to review this aspect of your business plan.

The Future of Gift Duty

In a statement issued by Hon. Peter Dunne, the possible repeal of gift duty has been signalled. Gift duty was originally introduced to prevent people from avoiding estate duty. When estate duty was removed in 1992, gift duty was left in place to stop people from re-distributing their assets to avoid creditors, reduce their tax liability and/or acquire social assistance. Currently, individuals can gift up to \$27,000 per year without incurring gift duty.



It is common practice to make gifts that do not exceed the \$27,000 threshold; therefore very little gift duty is ever collected, but significant administration costs are incurred. Concerns still exist over the use of gifting to undermine the interests of creditors or to access social assistance, but the Government is in the process of considering if other measures could be used to overcome these concerns if gift duty were to be repealed.

Upcoming Events

Tax Seminar - 6 September 2010, 7.30am-9.30am & 8 September 2010, 5.30pm-7.30pm

A 2 hour presentation outlining the tax changes applicable from 1 October 2010 and 1 April 2011.

Xero Seminar - Proposed Date 23 September 2010

An online accounting system that gives you easy access to your bank transactions, invoices, reports, sales tax - anytime you need it, anywhere in the world.

**To register your interest for any of these seminars,
telephone Kim on: 07 838 0119 or email: kim@aol.org.nz**

An Important Message

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